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**ADHS/DBHS FINANCIAL REPORTING GUIDE
For Greater Arizona**

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*templates are subject to change

I. ACRONYMS

ACA	Affordable Care Act
ADHS	Arizona Department of Health Services
AHCCCS	Arizona Health Care Cost Containment System
AICPA	American Institute of Certified Public Accountants
ALTCS	Arizona Long Term Care System
A. R. S.	Arizona Revised Statutes
BFO	Bureau of Financial Operations /Division of Behavioral Health Services
BH	Behavioral Health
BQMO	Bureau of Quality Management Operations
CD	Certificate of Deposit
CER	Contractor's Expenditure Report
CFDA	Catalog of Federal Domestic Assistance
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
COE	Court Ordered Evaluation
DBHS	Division of Behavioral Health Services
DOI	Department of Insurance
E-Statements	Electronic Financial Statement Formats
FASB	Financial Accounting Standards Board
FFCB	Federal Farm Credit Banks
FFS	Fee-For-Service
FHLB	Federal Home Loan Banks
FHLMC	Federal Home Loan Mortgage Corporation

FNMA	Federal National Mortgage Association
FQHC/RHC	Federally Qualified Healthcare Centers/Rural Healthcare Clinics
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GNMA	Governmental National Mortgage Association
GSA	Geographical Service Area
HCSO	Health Care Service Organization
IBNR	Incurred But Not Reported
LOC	Letter of Credit
MHBG (CMHS)	Mental Health Block Grant
NAIC	National Association of Insurance Commissioners
OFR	Office of Financial Review
OMB	Office of Management and Budget
OPS	Office of Program Support
PCP	Primary Care Physician
PCP Parity	Primary Care Physician Parity
PH	Physical Health
PPC	Prior Period Coverage
PQC	Prior Quarter Coverage
PL	Public Law
RBHA	Regional Behavioral Health Authority
RBUC	Reported But Unpaid Claim
SA	Substance Abuse
SABG (SAPT)	Substance Abuse Block Grant

SED	Serious Emotional Disturbance
SFAS	FASB Statement of Financial Accounting Standards
SMI	Seriously Mental Ill
SOP	Statement of Position

II. DEFINITIONS

AFFILIATE

See “Related Party Transactions”.

AHCCCS

A State agency, as described in A.R.S. Title 36, Chapter 29, which is responsible for the provision of hospitalization and medical care to members through contracts with Contractors. AHCCCS is Arizona’s Medicaid program, approved by the Centers for Medicare and Medicaid Services as a Section 1115 Waiver Demonstration Program.

BLOCK GRANT

Federal monies allocated to states, cities or counties for distribution to community groups, charities and other social service providers, most often administrated under the allocated agencies rules and regulations.

CAPITATION

Payment by ADHS/DBHS to a RBHA for Title XIX/XXI, of a fixed monthly payment in advance per eligible member, for which the provider provides a full range of covered services as authorized under A.R.S. §36-2904 and §36-2907.

CONTRACT YEAR

October 1 through September 30

COST SHARING

RBHA payment on behalf of behavioral health recipients for medicare and private insurer costs, including premiums, deductibles and coinsurance.

DAY

Calendar day unless otherwise specified.

DURABLE MEDICAL EQUIPMENT

An item or appliance that is not an orthotic or prosthetic and that is designed for a medical purpose; is generally not useful to a person in the absence of an illness or injury; can withstand repeated use; and is generally reusable by others.

EMERGENCY MEDICAL CONDITION

A medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain) such that a prudent layperson who possesses an average knowledge of health and medicine could reasonably expect the absence of immediate medical attention to result in: a) placing the patient’s health (or, with respect to a pregnant woman, the health of the woman or her unborn child) in serious jeopardy, b) serious impairment to bodily functions, or c) serious dysfunction of any bodily organ or part [42 CFR 438.114(a)].

EMERGENCY SERVICES

Covered inpatient and outpatient services provided after the sudden onset of an emergency medical condition as defined above. These services must be furnished by a qualified provider, and must be necessary to evaluate or stabilize the emergency medical condition [42 CFR 438.114(a)].

ENROLLMENT

The process by which an eligible person becomes a member of the RBHA's plan.

EPISODE OF CARE

The period between the beginning of treatment and the ending of behavioral health services for an individual. Within an episode of care, a person may transfer to a different service, facility, program or location. The beginning and end of an episode of care is marked with a demographic file submission. Over time, an individual may have multiple Episodes of Care.

EXCESS PROFIT/(LOSS)

Service Profit/Loss minus the Risk Band.

FEE-FOR-SERVICE

A method of payment to registered providers on an amount per service basis.

HOME HEALTH

Health and supportive services provided in a Title XIX/XXI member's home. This service shall be provided under the direction of a physician to prevent hospitalization or institutionalization and may include nursing, therapies, supplies and home health aide services. It shall be provided on a part-time or intermittent basis.

INCURRED BUT NOT REPORTED CLAIMS

Incurred but not reported liability for services rendered for which claims have not been received.

INPATIENT

A patient who is provided with room, board, and general nursing services in a hospital setting and is expected to occupy a bed and remain at least overnight.

NET CAPITATION/ SERVICE REVENUE

Total Revenue net of administrative percentage included in the capitation rate.

NEWLY ELIGIBLE ADULTS

Under the Medicaid Restoration Plan, beginning January 1, 2014 non-dual eligible adults between the ages of 19 to 64 with income between 100% to 133% of the Federal Poverty Level.

OUTPATIENT

A patient who is not confined overnight in a health care institution.

PHARMACY

An establishment where prescription orders are compounded and dispensed by, or under the direct supervision of, a licensed pharmacist, who is registered pursuant to A.R.S. Title 32, Chapter 18.

PHYSICIAN SERVICES

Services provided within the scope of the practice of medicine or osteopathy, as defined by State law, or under the personal supervision of an individual, licensed under State law to practice medicine or osteopathy. Physician services exclude those services routinely performed and not directly related to the medical care of the individual patient.

PRIMARY CARE PHYSICIAN PARITY

The Patient Protection and Affordable Care Act (ACA) requires that the RBHA pay qualified primary care providers (and other providers specified in ACA) fees that are no less than the Medicare fee schedule in effect for calendar years 2013 and 2014, or the fee schedule rate that would result from applying the 2009 Medicare conversion factor, whichever is greater, for certain services designated by specific Current Procedural Terminology (CPT) codes.

PRIOR PERIOD

The period of time, prior to the member's enrollment, during which a member is eligible for covered services. The time frame is from the effective date of eligibility to the day a member is enrolled with a RBHA. Refer to 9 A.A.C. 22 Article 1.

PRIOR QUARTER COVERAGE

Prior Quarter Coverage is a different time period than Prior Period Coverage and refers to the timeframe PRIOR to an individual's month of application for AHCCCS coverage. The dates of eligibility for Prior Period Coverage and Prior Quarter Coverage do NOT overlap. Prior Quarter Coverage is limited to the three (3) month time period prior to the month of application. AHCCCS began Prior Quarter Coverage on January 1, 2014.

PROVIDER

A person or entity that contracts with a RBHA to provide covered services directly to members.

RBHA

An organization under contract with ADHS/DBHS that administers covered behavioral health services in a geographically specific area of the state.

RECEIVED BUT UNPAID CLAIMS

Claims that have been received by the RBHA but have not been paid. A claim is considered received the day it is physically received at the RBHA.

RELATED PARTY TRANSACTIONS

Transactions with a party that has, or may have, the ability to control or significantly influence a RBHA, or a party that is, or may be, controlled or significantly influenced by the RBHA. Control, for purposes of this definition, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise. "Related parties" or "Affiliates" include, but are not limited to, agents, managing employees, persons with an ownership or controlling interest in the disclosing entity, and their immediate families, subcontractors, wholly-owned subsidiaries or suppliers, parent companies, sister companies, holding companies, and other entities controlled or managed by any such entities or persons.

RISK BAND

The percentage of risk to the RBHA ranging from +/- 4% of Net Capitation/Service Revenue.

SERVICE EXPENSE

Adjudicated encounters including sub-capitated and block payment arrangement expenses as actual service expense.

SERVICE PROFIT/(LOSS)

For TXIX/XXI: Net Capitation/Service Revenue minus Service Expenses.

For Non-Title XIX/XXI: Service Revenue minus Service Expense minus Profit Limit.

SHARED SAVINGS ARRANGEMENT

An arrangement between a RBHA and provider designed to achieve cost savings which may include improved outcome requirements that result in quality improvements, in defined areas; the savings from which are shared between the RBHA and the provider

STATE FISCAL YEAR

July 1 through June 30.

STATE ONLY TRANSPLANT MEMBERS

Individuals who are eligible under one of the Title XIX eligibility categories and found eligible for a transplant, but subsequently lose Title XIX eligibility due to excess income may become eligible for one of two extended eligibility options as specified in A.R.S. 36-2907.10 and A.R.S. 36-2907.11.

SUB-CAPITATION

A fixed premium paid by the RBHA to a provider of health care services with whom the RBHA has a contract. The provider is at risk for the designated services.

THIRD PARTY

An individual, entity or program that is, or may be, liable to pay all, or part of, the medical cost of injury, disease or disability of a member as defined in R9-22-1001.

III. OVERVIEW

The purpose of this reporting guide is to set the periodic financial reporting requirements for the contracted RBHAs for Greater Arizona. The primary objectives of the reporting guide are to establish consistency and uniformity in financial reporting among the RBHAs and to provide guidelines to assist the RBHAs in meeting contractual reporting requirements. This reporting guide is neither intended to limit the scope of audit procedures to be performed during the RBHA's annual certified audit nor to replace the independent Certified Public Accountant's judgment as to the work to be performed. It is instead intended to define certain additional procedures and analysis to be performed and reported by each RBHA on a periodic basis and by the independent Certified Public Accountants on an annual basis.

The contract with ADHS/DBHS requires that RBHAs furnish information from their records relating to the performance under the contract. Certain financial and statistical data are outlined in the contract as minimum reporting requirements. ADHS/DBHS has developed a standard set of forms to be used to satisfy the financial reporting requirements as well as guidelines and minimum reporting requirements for the annual audited financial statements. This guide is intended to outline these requirements and also provide examples of required reports in the Appendix to the guide.

RBHAs are required to utilize the most recent Financial Statement Reporting Template provided by ADHS/DBHS. Financial statements must be prepared and presented on an accrual basis and in accordance with GAAP and all other applicable authoritative literature. Financial reporting by an HCSO for Medicare Reporting must follow statutory accounting rules as prescribed by the Arizona DOI (if licensed by DOI or AHCCCS Financial Reporting Guide if certified by AHCCCS). If there are any inconsistencies between this reporting guide and any contract provision, the contract provision shall prevail. This guide is not intended nor should it be construed as an all-inclusive manual. The format and content of the required reports are subject to change. Questions regarding the content or format of a report are to be directed to the ADHS/DBHS Chief Financial Officer (CFO).

IV. FISCAL MONITORING AND FINANCIAL VIABILITY

A. CRITERIA FOR MONITORING FINANCIAL VIABILITY

The RBHA shall, on a monthly basis, meet certain financial viability criteria as outlined in this reporting guide. ADHS/DBHS utilizes certain ratios and standards to assist in the monitoring of the RBHA's financial performance and viability. These ratios and standards will be used for evaluation purposes; however, they are not necessarily the only factors considered when evaluating RBHA financial viability. Should the RBHA fail to meet a ratio or standard, corrective action may be required and sanctions may be imposed. The financial ratios and standards are summarized in this reporting guide.

B. FINANCIAL RATIOS AND STANDARDS TABLE

RATIO	DESCRIPTION	STANDARD
LIQUIDITY RATIOS		
<u>Current Ratio:</u> $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Provides an indication of the organization's ability to pay its short-term liabilities. Other Assets deemed restricted by ADHS/DBHS are excluded from this ratio.	≥ 1.0
<u>Defensive Interval:</u> $\frac{(\text{Unrestricted Cash} + \text{Current Investments})}{((\text{Operating Expenses} - \text{Non Cash Expense Items}) / [\text{Period Being Measured (days)}])}$	Measures the organization's ability to meet short-term obligations. Other Assets deemed restricted by ADHS/DBHS are excluded from this ratio.	$\geq 30 \text{ DAYS}$
PERFORMANCE RATIOS		
<u>Total Title XIX/XXI Administrative Expenses</u> <u>Total Title XIX/XXI Revenue including Reconciliation Settlements</u>	Indicates the proportion of Title XIX/XXI administrative expenses to Title XIX/XXI revenue including Reconciliation Settlements	$\leq 8.0\%$
<u>Total Non-Title XIX/XXI Administrative Expenses</u> <u>Total Non-Title XIX/XXI Revenue including Profit Limit adjustments</u>	Indicates the proportion of Non-Title XIX/XXI administrative expenses to Non-Title XIX/XXI revenue including Profit Limit adjustments	$\leq 8.0\%$
<u>Total Title XIX/XXI Service Expenses</u> <u>Total Title XIX/XXI Revenue including Reconciliation Settlements</u>	Indicates the proportion of Title XIX/XXI services expenses to Title XIX/XXI revenue including Reconciliation Settlements	No less than 88.3%
<u>Total Non-Title XIX/XXI Service Expenses</u> <u>Total Non-Title XIX/XXI Revenue including Profit Limit adjustments</u>	Indicates the proportion of Non-Title XIX/XXI services expenses to Non-Title XIX/XXI revenue including Profit Limit adjustments	No less than 88.3%
MINIMUM CAPITALIZATION, PERFORMANCE BOND AND EQUITY PER ENROLLED MEMBER		
Maintenance of Minimum Capitalization	Net assets (not including the value of the Performance Bond and Other Assets deemed restricted by ADHS/DBHS) shall be greater than or equal to ninety percent (90%) of the monthly Title XIX/XXI capitation and Non-Title XIX/XXI payment to the RBHA	As Established by ADHS/DBHS
Performance Bond	Performance Bond shall be one hundred percent (100%) of the monthly Title XIX/XXI capitation and Non-Title XIX/XXI payment to RBHA	As Established by ADHS/DBHS
Equity per Enrolled Title XIX/XXI Member	Unrestricted Net Assets/Equity less Performance Bond reported on Statement of Financial Position, Due from Affiliates, Guarantees of Debts/Pledges/Assignments and Other Assets determined to be Restricted divided by the number of enrolled Title XIX/XXI members, including Title XIX DD, as of the last day of the month	\$25/Enrolled Member

C. FINANCIAL STANDARDS

1. CURRENT RATIO

Current Assets (not including assets deemed restricted by ADHS/DBHS) divided by Current Liabilities shall be equal to or greater than 1.0. If current assets include a receivable from a parent company, the parent company must have liquid assets that support the amount of the intercompany loan.

2. DEFENSIVE INTERVAL

Unrestricted Cash (not including assets deemed restricted by ADHS/DBHS) and Current Investments divided by the average daily operating expense less Non-Cash expenses shall be equal to or greater than thirty (30) days.

3. SERVICE AND ADMINISTRATIVE EXPENSE PERCENTAGES

Each expense percentage shall be calculated separately by program for Title XIX/XXI and Non-Title XIX/XXI:

Service Expense Percentage Standard (Service Expenses do not include income taxes):

Title XIX/XXI	No less than 88.3%
Non-Title XIX/XXI	No less than 88.3%

Administrative Expense Percentage Standard:

Title XIX/XXI	≤ 8.0%
Non-Title XIX/XXI	≤ 8.0%

Title XIX/XXI includes the following programs: Non CMDP Child, CMDP Child, DD Child, GMH/SA, DD Adult, SMI Integrated and SMI Non-Integrated.

Non-Title XIX/XXI includes the following programs: Crisis, SMI, Supported Housing for Title XIX SMI, SB1616 Housing, MHBG (CMHS) SED, MHBG (CMHS) SMI, SABG (SAPT), Other Federal, County and Other.

4. INITIAL CAPITALIZATION/MAINTENANCE OF MINIMUM CAPITALIZATION

At any time during the first contract year, the maintenance of minimum capitalization requirement shall never fall below the initial capitalization requirement of \$5 Million for the Northern GSA and \$9 Million for the Southern GSA. Unrestricted Net Assets/Equity (not including the value of the Performance Bond and Other Assets deemed restricted by ADHS/DBHS) shall be greater than or equal to ninety percent (90%) of the monthly Title XIX/XXI capitation and Non-Title XIX/XXI payments to the RBHA.

5. EQUITY PER ENROLLED TITLE XIX/XXI MEMBER

The Equity per enrolled Title XIX/XXI member shall be greater than or equal to twenty-five dollars (\$25) per enrolled member. This calculation shall be based on Unrestricted Net Assets/Equity less Performance Bond reported on Statement of Financial Position, less Due from Affiliates, less Guarantees of Debts/Pledges/Assignments and Other Assets determined to be restricted divided by the number of enrolled Title XIX/XXI members, including Title XIX DD, as of the last day of the month.

6. PERFORMANCE BOND

RBHAs are required to post a Performance Bond (refer to Appendix H for sample template) to guarantee the payment of the RBHA's obligations to providers, non-contracting providers, and non-providers, and to guarantee the performance by the RBHA of contractual obligations. The Performance Bond requirement is equal to one hundred percent (100%) of the expected monthly Title XIX/XXI capitation and Non-Title XIX/XXI payments or as determined by ADHS/DBHS. The Performance Bond shall be adjusted when the total of monthly payments change by ten percent (+/- 10%). The Performance Bond shall be of standard commercial scope issued by a surety company doing business in the State of Arizona, an irrevocable stand-by letter of credit, or a cash deposit. Performance Bond substitutes shall be in a form acceptable to ADHS/DBHS and shall be payable to ADHS/DBHS. Upon notification, the RBHA shall make changes to the amount required by ADHS/DBHS.

RBHAs shall maintain a Performance Bond that during the final contract year has an expiration date of at least fifteen (15) months after the contract expiration date. If the RBHA has additional liabilities outstanding fifteen (15) months after the termination of the contract, the RBHA may request a reduction in the Performance Bond sufficient to cover all outstanding liabilities, subject to ADHS/DBHS' approval, until all liabilities have been paid.

Deliverables to satisfy Performance Bond requirements shall be sent to the Office of Financial Review at the following address:

ADHS/DBHS/BFO
Attention: Office of Financial Review
150 North 18th Avenue, Suite #240
Phoenix, Arizona 85007

A. Performance Bond Description

ADHS/DBHS allows several specific ways to satisfy the performance bond, as follows:

- Cash Deposits
- Irrevocable Stand-by Letter of credit issued by any of the below named institutions:
 - a. A bank insured by the Federal Deposit Insurance Corporation.
 - b. A Savings and Loan association insured by the Federal Savings and Loan Insurance Corporation.
 - c. A credit union insured by the National Credit Union Administration.
- Surety Bonds issued by a surety company approved by ADHS/DBHS.
- Substitute security, as agreed to by ADHS/DBHS.

On or before September 15 of each year, the RBHA shall establish and maintain a performance bond rated at least A by A.M. Best Company of a standard scope issued by a surety company or companies holding a certificate of authority to transact surety business in the State of Arizona issued by the Director of the Department of Insurance pursuant to Title 20, Chapter 2, Article 1, and in a form prescribed by R2-7-506.

A full listing of acceptable substitute securities is described below. The acceptable list is complete; no others can be substituted. The listing of unacceptable securities is not comprehensive; it is designed only to give an idea of common securities that have already been considered and rejected. ADHS/DBHS will periodically review the acceptable substitutes and consider other options as needed.

Certificate of Deposit (CD). CDs must be issued by a financial institution and insured by the appropriate Federal Agency. The CD must be assigned to ADHS/DBHS and forwarded to the State Treasurer for safekeeping.

United States Treasury Bills (T-Bills). Similar to the Treasury Notes and Bonds, except they are much shorter in term, three, six and twelve months, and are sold at a discount. This means that less than the face amount is paid for the original purchase price and the face amount is recovered at maturity. The interest earned is the difference between the amount paid and the par value of the T-Bill.

United States Treasury Notes and Bonds. This type of security is backed by the full faith and credit of the United States Government. These are notes, with maturities ranging from two to thirty years. Interest is paid semi-annually on the anniversary of the issued date and six months later. They are considered coupon securities even though they are now mostly in book entry form. Ownership is simply entered in the computers of the Federal Reserve. Interest is paid by the Federal Reserve by issuing credits to members that the notes are recorded through and the banks credit the customer's account. These notes and bonds shall be held by the custodian of the State Treasurer (U.S. Bank). They may not be released or substituted without ADHS/DBHS approval.

Federal Farm Credit Banks (FFCB). The FFCB is 37 banks that issue two types of securities that can be substitutes for the performance bond, Consolidated System wide bonds and Consolidated System wide notes. The securities are the joint and several obligations of all 37 member banks of the FFCB.

Federal Home Loan Banks (FHLB). The FHLB serves the same function for the Savings and Loan industry as the Federal Reserve does for the banking industry. It is owned by the member Savings and Loan and issues coupon interest bonds much like the Federal Reserve.

Federal National Mortgage Association (FNMA). FNMA issues two types of securities, coupon interest bonds and mortgage bonds. The coupon interest bonds are acceptable for the Performance Bonds. The Mortgage bonds are not acceptable because of the repayment of the principal over the life of the bonds.

Securities NOT acceptable to ADHS/DBHS:

- Federal Home Loan Mortgage Corporation (FHLMC)
- Governmental National Mortgage Association (GNMA)
- Municipal Bonds
- Corporate Bonds
- Commercial Paper
- Stocks
- Letter of credit from other than a Bank, Savings and Loan or Credit Union
- Banker's acceptance
- Mutual Funds
- Letter of Credit (guarantee) from any parent organization

The Performance Bond shall remain in the safekeeping of the State of Arizona Treasurer's Office, or the State Treasurer's appointed custodian.

RBHA Procedures:

Depending on the type of Performance Bond posted, the RBHA shall have funds deposited with the State Treasurer, Certificates of Deposit assigned to the State Treasurer, or substitute securities deposited with the State Treasurer's appointed custodian. The Original Letter of Credit or Surety bond must be sent to ADHS/DBHS and will be forwarded to the State Treasurer for safekeeping.

The Performance Bond shall have an immediate redemption value equal to or greater than the Performance Bond required at the time of purchase. A statement that the Performance Bond cannot be changed in the amount, duration or scope without the authorization of ADHS/DBHS must be included in each Performance Bond and LOC.

The State of Arizona Contract Number shall be noted on the performance bond. The RBHA must submit a written request to ADHS/DBHS to withdraw or release its Performance Bond.

B. Performance Bond Instructions

1. Cash Deposits

a. Deposit of Funds

- i. The RBHA shall send ADHS/DBHS a check in an amount that meets or exceeds the Performance Bond requirement. The check shall be accompanied by a letter describing:
 - The application of funds as a Performance Bond for the ADHS/DBHS contract.
 - The name and phone number of a primary contact.
 - Instructions for the disposition of the interest from the deposit. Interest can be reinvested or disbursed monthly.
 - Directions of where to send any disbursed interest.

- ii. ADHS/DBHS will complete and send the Securities Safekeeping Form with the RBHA's check to the State Treasurer for processing and deposit.
 - iii. Subject to the instructions provided, the State Treasurer may issue warrants each month for the interest in the account.
 - iv. The State Treasurer will furnish statements of the account only upon written request. This request may be made at any time.
- b. Withdrawal of Funds

The RBHA must send a letter to ADHS/DBHS requesting the withdrawal of any or all principal funds. The letter must include:

- The amount of the withdrawal.
- The date the funds should be withdrawn, (allow a minimum of ten (10) working days).
- The manner in which the warrant from the State Treasurer's Office should be handled: Mailed by the US Postal Service, or Courier (please include name and phone number of primary contact).

2. Irrevocable Letter of Credit

a. Establishment of Bond

- i. The RBHA should secure approval from ADHS/DBHS prior to posting an irrevocable LOC as a Performance Bond. Only stand-by LOCs are acceptable. The request for approval must include:
 - General requirements of the proposed LOC.
 - An amount that meets or exceeds the Performance Bond requirement.
 - A time period that meets or exceeds ADHS/DBHS' contract term.
 - The LOC cannot be changed in the amount, duration or scope without the authorization of ADHS/DBHS.
 - ADHS/DBHS must receive a signed extension of the LOC at least sixty (60) days prior to the expiration of the LOC or upon ADHS/DBHS demand.
- ii. The RBHA must send the LOC to ADHS/DBHS ten (10) working days prior to the execution date. ADHS/DBHS will review the LOC for elements necessary for the Performance Bond and advise the RBHA of the acceptance of, or required changes to, the LOC. Upon acceptance of the LOC by ADHS/DBHS, the RBHA must submit the original LOC to ADHS/DBHS. The original will be held with the State Treasurer for safekeeping until the agreement ends or is terminated by the parties.

b. Return of original Letter of credit

Original Letter of credit will be returned to the maker upon:

- Termination of the LOC.
- Satisfying the Performance Bond requirement with another acceptable form.

3. Surety Bonds

a. Establishment of a Surety Bond

The RBHA shall secure approval from ADHS/DBHS prior to posting a Surety Bond as a Performance Bond.

The general requirements of a Surety Bond are as follows:

- An amount that meets or exceeds the Performance Bond requirement
- A time period that meets or exceeds ADHS/DBHS' contract term
- The Surety Bond cannot be changed in the amount, duration or scope without the authorization of ADHS/DBHS
- ADHS/DBHS must receive a signed extension of the bond sixty (60) days prior to the bond expiration date or upon ADHS/DBHS demand.

The RBHA must send the original Surety Bond to ADHS/DBHS. ADHS/DBHS will notify the RBHA in writing of the acceptance of the Surety Bond or of any necessary changes within five days of receipt of agreement. The original will be forwarded to the State Treasurer for safekeeping until the agreement ends or is terminated by the parties.

b. Return of Surety Bond original

The original Surety Bond will be returned to the makers upon:

- Termination of the Surety Bond, or
- Satisfying the Performance Bond requirement with another acceptable form.

4. Certificate of Deposit

a. Assignment to Arizona State Treasurer

The completion of the Assignment to Arizona State Treasurer form is the RBHA's responsibility. Only Certificates of Deposit (CD) from banks, savings and loans, or credit unions, insured by the appropriate federal institution, are acceptable for the Performance Bond. The face amount of the CD must be equal to or greater than the Performance Bond requirement.

b. Deposit of the Certificate of Deposit

The RBHA shall deliver to ADHS/DBHS the original CD (or receipts for the CD if certificate is not issued), the Assignment to Arizona State Treasurer, and a letter detailing the reason for the deposit and the name of a contact person.

ADHS/DBHS will complete and send a Securities Safekeeping form with the CD and the Assignment to Arizona State Treasurer to the State Treasurer. It is the RBHA's responsibility to monitor the maturity date of the CD. No notifications will be made from the State Treasurer's Office or ADHS/DBHS.

c. Withdrawal of a Certificate of Deposit

The RBHA must send a letter to ADHS/DBHS requesting the release of a specific CD. The letter must include:

- The name of the institution issuing the CD.
- The certificate number.
- The amount of the CD.
- The manner in which the CD is to be returned to the RBHA.
- The name of a contact person.

5. United States Treasury Bills

a. Establishment of custodial account

- i. The RBHA shall open a custodial account by providing the following information to US Bank (Forms and the US Bank contact information are available from ADHS/DBHS upon request):
 - Request for Taxpayer Identification Number and Certification (Form W-9)
 - State of Arizona Client Data Form completed with specimen signatures
 - Arizona Department of Health Security Deposit Form (Form E125)
 - Shareholder Communication Act Form Authorization by an Institutional Shareholder
 - Money Market Fund Disclosure Form
 - State Treasurer Custody Agreement & Appendix A. (mutually agreed upon)
 - Articles of Incorporation
 - List of Principals and Directors
- ii. After US Bank has opened the custodial account, the RBHA should execute the Arizona Department of Health Security Deposit Form (Form E125) to transfer the funds to US Bank (Funds for Treasury Bills cannot be transferred in less than \$1,000 increments). Funds will be electronically transferred to US Bank based on the instructions per the E125 Deposit Form.
- iii. After the funds have been deposited, US Bank will send a copy of the executed custody agreement to ADHS/DBHS, the State Treasurer and the RBHA.

US Bank shall not permit the RBHA to make any withdrawal, disbursement, exchange, or transfer of Eligible Securities or other property from the Account if the Account Value, after giving effect to such transaction, would be less than the Minimum Account Balance (MAB). In addition, upon receipt of a MAB change notice, US Bank shall, by facsimile or electronic mail, confirm to ADHS/DBHS that the RBHA's Account Value is at least equal to the new Minimum Account Balance.

- iv. The RBHA can set up an on line access account to retrieve quarterly statements from US Bank. US Bank will send annual statements to the RBHA.

b. Withdrawal of Funds

- i. To withdraw funds, the RBHA must send a letter to ADHS/DBHS requesting the withdrawal. The letter must include:
 - The amount of the withdrawal
 - The date that the funds should be withdrawn (allow a minimum of ten working days)
 - E-126 Security Release Form
- ii. Upon approval, ADHS/DBHS will forward the E-126 form to US Bank to release the funds.

7. TITLE XIX/XXI RECONCILIATION PROCESS AND NON-TITLE XIX/XXI PROFIT LIMIT

ADHS/DBHS limits the service profit or loss on Title XIX/XXI programs, and the service profit on Non-Title XIX/XXI programs. The RBHA shall record, and adjust monthly, as necessary, any excess profit or loss resulting from the reconciliation/profit limit calculations. ADHS/DBHS requires that these entries be reflected in the program(s) where the profit or loss in excess of the risk band/limit occurs.

A separate analysis of the profit or loss for the Title XIX/XXI and Non-Title XIX/XXI programs shall be performed on a monthly basis. The RBHA shall separately calculate profits and losses for the Children population (Non CMDP Child and CMDP) and the Adult population (SMI Integrated, SMI Non Integrated and GMH/SA (which includes Title XXI Adult)). Excess service profit in the Children population shall not be used to offset any service losses in any other program. Excess profits in the Adult population may be used to offset service losses in the Children population.

Monthly, throughout the contract year, the RBHA shall accrue a receivable/payable for any estimated excess loss/profit. Upon request, excess profit shall be returned to ADHS/DBHS. ADHS/DBHS reserves the right to reduce the reimbursement if the RBHA does not substantiate the loss with encounters. This will be evidenced by meeting or exceeding the required final encounter percentage as calculated in the final Financial Comparison to Revenue versus Encounter Valuation Report for the applicable period (refer to the Encounter Table in Section IV. C. 11. Encounter Reporting Requirements).

For additional information regarding the TXIX/XXI Reconciliation Process, refer to Section VII. Financial Reporting Instructions, J. TXIX/XXI Reconciliation Process.

8. BLOCK PAYMENT ARRANGEMENTS

ADHS/DBHS reserves the right to limit the RBHA's percentage of block payment arrangements with its subcontractors.

9. NON-TITLE XIX/XXI CRISIS, SMI AND HOUSING

No profit is allowed for the following programs: Non-Title XIX/XXI Crisis, Non-Title XIX/XXI SMI, Supported Housing for Title XIX SMI, SB1616 Housing and Bridge Subsidy. The RBHA is under no obligation to deliver or pay for services beyond the amount paid to them for these programs. The RBHA shall manage allocated funds for services for Non-Title XIX/XXI Crisis, Non-Title XIX/XXI SMI, Supported Housing for Title XIX SMI, SB1616 Housing and Bridge Subsidy eligible persons in a manner to enable it to deliver services throughout the state fiscal year.

The RBHA shall expend a minimum of 92.0% of State Funds on services and is limited to 8.0% on administrative expenses for Non-Title XIX/XXI Crisis, Non-Title XIX/XXI SMI, Supported Housing for Title XIX SMI and SB1616 Housing. State Funds not expended on services and administration, including amounts under the required 92.0% for services shall be returned to ADHS/DBHS. The RBHA shall also return unspent administration funds to the extent of profits in the programs. Monthly, throughout the contract year, the RBHA shall accrue a payable for estimated profit in Non-Title XIX/XXI Crisis, Non-Title XIX/XXI SMI, Supported Housing for Title XIX SMI and SB1616 Housing. The Non-Title XIX/XXI SMI program will be monitored by comparing the RBHAs' reported expenses to their approved plan. Appendix B-6 depicts Non-Title XIX/XXI SMI expenses on a state fiscal year as opposed to a contract year. Refer to Appendix B-7 of this guide for an example of the Non-Title XIX/XXI Monitoring Report. On a quarterly basis, provide justification regarding variances from the approved Non-Title XIX/XXI SMI spending plan. Include lessons learned and indicate where efforts will be focused in order to align service expenses with targeted percentages.

Funds allocated for Supported Housing for Title XIX SMI, SB1616 Housing, Bridge Subsidy and Non-Title XIX/XXI SMI Supported Housing must be spent in accordance with approved housing plans. Approval must be obtained from ADHS/DBHS prior to deviating from approved plans. Housing expenditures, with the exception of Bridge Subsidy, should be reported on the Statement of Activities, under the applicable program on line 504g and disclosed on the Statement of Activities, Schedule A Disclosure accordingly.

10. STATE GENERAL FUNDS

In accordance with A.R.S. 35-190, State General Funds are appropriated by legislature and must be expended (based on dates of service) by June 30 of each state fiscal year at both the RBHA and provider levels. These funds are noted as State General Funds in the ADHS/DBHS Allocation Schedule.

The RBHA is expected to monitor provider expenditures to ensure that State General Funds are spent by June 30. The RBHA and its providers are not allowed to defer State General Funds; and shall provide ADHS/DBHS with projected unexpended State General dollars by fund source via email or letter by April 15 of each state fiscal year.

Providers must return unexpended State General Funds to the RBHA; and subsequently, the RBHA must return the funds to ADHS/DBHS within fifteen (15) days of ADHS/DBHS' request or within thirty (30) days after state fiscal year, whichever is earlier. Unexpended funds held by the RBHA and/or your providers may be withheld from future payments by ADHS/DBHS or must be returned to ADHS/DBHS and re-allocated. Should these funds have been expended for any purpose other than that outlined in the current year approved housing plan, these expenditures will need to be re-classified to a Non ADHS/DBHS funding source or net assets as appropriate.

The RBHA shall add this requirement to their provider contracts, provider financial reporting guides or otherwise communicate this requirement to providers.

11. ENCOUNTER REPORTING REQUIREMENTS

The RBHA is required to submit encounters or claims for every service rendered to a client in accordance with encounter and claims submission requirements outlined in the ADHS/DBHS Guides and Manuals. The RBHA must accept and process claims for medically necessary services for all Title XIX enrolled members receiving COE services in an inpatient setting after the third party liability of the county ends. Counties are responsible for the payment of services for individuals who are remanded to an inpatient facility to receive a COE. Following the filing of the Petition for Court Ordered Treatment by the Evaluation Agency, which occurs within seventy-two (72) hours of admission (excluding weekends and holidays), the RBHA may then accept and pay claims/encounters for inpatient services if the individual is enrolled with AHCCCS and if these services are medically necessary, assuming it is not covered by the County or another third party payer. The issue of voluntarily participating in treatment is not, in and of itself, a factor in the determination of medical necessity. Furthermore, the refusal of the Title XIX individual to accept medication is not, in and of itself, a factor in rejecting the encounter or determining the medical necessity of the service.

All crisis services that are billed/encountered must be identified by entering the emergency indicators as indicated in the billing instructions. Crisis encounters will only be identified via emergency indicators. Stabilization services provided using codes S9484 and S9485 should be reported on line 505b, Crisis Intervention – Stabilization, under the appropriate column, except for SABG (SAPT) and MHBG (CMHS). These service codes are usually utilized within a hospital/subacute facility but due to the federal block grant regulations, SABG (SAPT) and MHBG (CMHS) funds cannot be used for hospital inpatient services. On the other hand, stabilization services provided using codes other than S9484 and S9485, including crisis services provided at a Rural Substance Abuse Transitional Agency (A6), should be reported under the appropriate column on the applicable line of service.

Accurate encounter data shall be submitted timely to assist ADHS/DBHS in evaluating the RBHA's performance and for establishing capitation rates. For a complete list of service codes by provider type refer to the ADHS/DBHS Covered Services Guide, Appendix B-2. Encounter reporting analysis shall be performed by ADHS/DBHS four (4) months after each quarter end and eight (8) months after the end of the contract year.

The RBHA must develop statistically sound encounter rates that are based on actual costs. The value used by RBHA subcontractors to encounter services shall be determined by the contracted rate established at the beginning of the contract year. All rates should use the AHCCCS fee-for-service rate schedule as the baseline and are subject to review and approval by ADHS/DBHS.

The RBHA should submit a schedule with percentage increase or decrease from the old rate to the new rate and the percentage of the new rate to the current AHCCCS rate amount for each proposed rate adjustment. This schedule should be submitted to the ADHS/DBHS CFO thirty (30) days prior to contracting with providers. ADHS/DBHS may request additional analysis to further assess whether rates are statistically sound and in line with actual costs. If requested, the RBHA will be required to submit their provider rate code template which may include the following:

1. Assumptions for the following: staffing, salary and employee related expenses, productivity, supervision, travel, documentation time, down time for meetings and phone calls, direct costs, other costs, and administrative costs.
2. Detailed calculations for each rate code.

Any retrospective changes, to contracted rates that may result in the adjustment or voiding and replacement of encounters must be pre-approved through OPS. When doing so, provide justification for why this process is necessary for the batch being submitted. This approval justification process applies to both FFS claims and sub-capitated/block payment encounters. For details regarding recoupments or reprocessing of FFS claims, refer to the OPS Operations and Procedures Manual Recoupment Request Policy. This policy applies to both Title XIX and Non-Title XIX/XXI FFS claims.

Financial Comparison of Revenue versus Encounter Valuation Report

ADHS/DBHS shall, on the Financial Comparison of Revenue versus Encounter Valuation Report, quarterly and annually, retroactively calculate the Contract Year-to-Date (CYTD) value of encounters (based on dates of service) submitted by the RBHA. The calculation will be performed in order to measure timeliness and completeness of encounter submissions. Encounter reporting may be considered complete when the RBHA's encounter values reported to ADHS/DBHS reach the minimum percentage levels specified in the table below as compared to the service (non-administrative) revenue (92.0% of total ADHS/DBHS revenue) for each evaluation period. Service revenue will include profit limit/excess profit/(loss) revenue adjustments. Revenue not required by ADHS/DBHS to be encountered will be excluded from the encounter reporting calculation (also known as "encounter relief").

MINIMUM PERCENTAGE OF ENCOUNTERS TABLE

QTR 1 (Oct – Dec)	QTR 2 Oct - Mar)	QTR 3 (Oct – June)	QTR 4 (Oct – Sept)	Final (Oct – Sept)
35%	45%	55%	65%	85%

The completion percentages in the table above were selected to account for utilization fluctuation among quarters, and to recognize encounter submission lags. The objective is to ensure a steady inflow of submitted encounters.

Quarterly Sanction for Not Submitting the Minimum Non-Title XIX/XXI Percentage of Encounters

ADHS/DBHS may sanction the RBHA and/or pass through any sanctions assessed by AHCCCS (To ADHS/DBHS) when the RBHA fails to submit the required minimum percentage of encounters on a quarterly basis.

The full amount of the sanction will be withheld from the RBHA's monthly payment. The sanction shall be reported as an administrative expense on the Statement of Activities, line 608, All Other Operating and allocated to the appropriate program(s) then further disclosed on the Statement of Activities Schedule A Disclosure. Refer to Section V. Reporting Issues, C. Sanctions for additional information.

A sanction may be assessed quarterly if the RBHA fails to submit the required quarterly encounter percentage for each evaluation period.

Non-Title XIX/XXI Year-End Encounter Valuation Sanction

The RBHA will have eight (8) months following the end of the contract year to submit the required percentages of encounters (refer to the table above) for the final evaluation. A sanction will be assessed on Non-Title XIX/XXI if the RBHA fails to meet the final required encounter percentage. Year-end encounter valuation sanctions will be assessed as follows:

Encounter Value as a Percentage of Service Revenue	Sanction Percentage Assessed on Deficit Encounter Value
<50%	50%
51%-59%	40%
60%-65%	25%
66%-70%	20%
71%-75%	15%
76%-80%	10%
81%-84%	5%
≥85%	No sanction assessed

The sanction percentage will be applied to the amount of the deficit.

For the Non-Title XIX/XXI year-end encounter evaluation sanction, whether assessed by ADHS/DBHS or accrued by the RBHA, the entire sanction shall be reported on the Statement of Activities, line 650, Encounter Evaluation Sanctions, under the program(s) applicable to the sanction and disclosed on the Statement of Activities, Schedule A Disclosure.

Block Payment Provider Encounter Monitoring

The RBHA shall define block payment provider encountering expectations and recoupment processes in provider contracts and/or the RBHA Financial Reporting Guide. The RBHA is expected to hold their block payment providers to the block payment provider contractual provisions and established expectations for encountering services. When monitoring block payment provider encounters and evaluating for funding recoupment and re-allocation, the RBHA should at a minimum consider encounter values, block payment provider performance and block payment provider profit levels.

Annually, ADHS/DBHS will request evidence that a RBHA regularly monitors the volume of encounters submitted by their block payment providers. The report will include the following:

- A. Total Revenue Paid to each block payment provider by individual program (funding source)
- B. Total Encounter Value submitted by each block payment provider by individual program (funding source)
- C. Percentage of letter B (above) divided by letter A (above)
- D. Audited block payment provider profit in dollars and percentage
- E. RBHA Encounter Submission Standard
- F. Explanation for under/over production of encounters by block payment provider by funding source. Also, describe the efforts made by the RBHA to address problems related to block payment provider under/over encountering
- G. Amount the RBHA has recouped or will recoup from block payment providers for under-encountering by individual program or funding source. List total recoupment from each block payment provider and include the month/year of recoupment whether planned or completed. If no funding will be recouped, explain why.
- H. If applicable, list overall barriers to encountering, summarized by TXIX/TXXI and NTXIX/XXI, which the block payment providers experienced during the contract year.

Block payment provider profits should be limited to four percent (4%) by RBHA unless pre-approved by ADHS/DBHS on a case by case basis. Block payment provider profits cannot be netted among RBHAs. ADHS/DBHS reserves the right to require the RBHAs to limit block payment provider's administrative percent.

12. ADVANCES, LOANS, INVESTMENTS AND EQUITY DISTRIBUTIONS

The RBHA shall not, without the prior approval of ADHS/DBHS, make any advances, loans, loan guarantees, investments or equity distributions to related parties or affiliates including another fund or line of business within its organization. Requests for the above items shall be emailed to the CFO thirty (30) days prior to the anticipated date of distribution. Requests should contain the following information: type of request, amount of request, recipient of request, reason/purpose for request and the expected timeframe for distribution.

The RBHA is also required to obtain ADHS/DBHS' approval prior to making advances or loans to providers. Requests should be emailed to the CFO ten (10) business days prior to the advancement of funds and should contain the following information: provider name, amount of advance or loan, anticipated date of distribution, pertinent date(s) of service, brief description of the basis for advance or loan and method of repayment (lump-sum or over a certain number of months). Report provider advances or loans under the Accounts Receivable Section on the Statement of Financial Position and disclose accordingly on the Statement of Financial Position, Schedule A Disclosure.

Refer to Appendix I for Request for Approval Templates

13. OTHER REQUIREMENTS

In addition to any other remedies available to ADHS/DBHS, if the RBHA fails to meet any of the criteria in the reporting guide, ADHS/DBHS may require the RBHA to submit an action plan for review and approval delineating how and when the RBHA will come into compliance with all criteria.

V. REPORTING ISSUES

A. ADHS/DBHS BLOCK GRANTS

The practices, procedures and standards specified in and required by the Accounting and Auditing Procedures Manual for Contractors of Arizona Department of Health Services Funded Programs and any Uniform Financial Reporting Requirements shall be used by the RBHA in the management, recording and reporting of Federal Block Grant funds.

The RBHA shall comply with all terms, conditions and requirements of the Mental Health (CMHS) and Substance Abuse (SAPT) Performance Partnership Block Grants. Financial, performance and program data subject to audit shall be retained by the RBHA as documentation of compliance with federal requirements. The RBHA shall establish fiscal controls to ensure that funds are accounted for in a manner that permits separate reporting of mental health and substance abuse grant funds and services. SABG (SAPT) and MHBG (CMHS) funds should be allocated and monitored in accordance with the ADHS/DBHS Allocation Schedule.

Prior written approval must be obtained from ADHS/DBHS for any deviations from the ADHS/DBHS Allocation Schedule. Funds paid to the RBHA for a state fiscal year shall be available for obligation and expenditures until the end of the state fiscal year for which the funds were paid. Similarly, funds paid to the RBHA for a contract year shall be available for obligation and expenditures until the end of the contract year for which funds were paid.

By June 30, the RBHA shall, notify ADHS/DBHS of all Federal Block Grant funds received but unexpended. With ADHS/DBHS' approval, the unexpended revenue shall be expended by September 30 and reported in the same program as ADHS/DBHS originally remitted. The RBHA shall monitor grant activities and maintain all necessary financial, contractual, budget and program data to ensure appropriate expenditure of grant funds.

Under the Federal Single Audit Act and OMB Circular A-133, the RBHA is required to notify all non-profit providers that expend \$500,000 or more a year in Federal Awards such as the SABG (SAPT) and MHBG (CMHS) to have a Single Audit conducted in accordance with the provisions of OMB Circular A-133 and the terms specified in contract with ADHS/DBHS. Additional information can be found at <http://www.whitehouse.gov/omb/circulars/>. The annual ADHS/DBHS Allocation Schedule references the CFDA number applicable to each grant.

Compliance with the OMB Circular A-133 shall be incorporated into provider contracts. Refer to Appendix G for a Sample Federal Funding Letter to Providers that can be used to implement the notification process to the provider. The template lists the minimum requirements of the Single Audit Report Package. In addition to implementing a notification process, the RBHA must incorporate a procedure for monitoring, tracking, and reporting the OMB Circular A-133 provider requirements. The RBHA should also communicate prohibited uses of Block Grant funds to providers.

The RBHA shall submit an annual SABG (SAPT) and MHBG (CMHS) Distribution Report in the format provided by ADHS/DBHS by October 15 following the end of each contract year (refer to Appendix I for template). Actual provider self-reported SABG (SAPT) and MHBG (CMHS) expenditures by category must be reported and disclosed in the SABG (SAPT) and MHBG (CMHS) Distribution Reports.

SABG (SAPT) Reporting Requirements by Category

Category	Financial Guide Reporting Requirement
SA General Services	Report service expenditures for General Services, including Intravenous Drug Users and Medication Assisted Treatment as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • By appropriate service expenditure line (501-511, excluding inpatient hospital services)
Specialty Programs for Pregnant/Parenting Women	Report service expenditures for Specialty Programs for Pregnant/Parenting Women as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • By appropriate service expenditure line (501-511, excluding inpatient hospital services)
Crisis Services	Report service expenditures for Crisis Services as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • By appropriate service expenditure line (501-511, excluding inpatient hospital services)
Centers of Excellence	Report service expenditures for Centers of Excellence as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • Line 503a, Medication Services
Flex Funds	Report service expenditures for Flex Funds as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • Line 504h, Flex Fund Services
Prevention	These services are non-encounterable. Report service expenditures for prevention services as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • Line 509a, Prevention
HIV/AIDS Early Intervention Services	These services are non-encounterable. Report service expenditures for HIV/AIDS as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • Line 509b, HIV
Children	Report service expenditures for Children Services as follows: <ul style="list-style-type: none"> • SABG (SAPT) Column • By appropriate service expenditure line (501-511, excluding inpatient hospital services)

MHBG (CMHS) Reporting Requirements by Category

Category	Financial Guide Reporting Requirement
Children with SED	Report service expenditures as follows: <ul style="list-style-type: none">• MHBG (CMHS) SED Column• By appropriate service expenditure line (501–511, excluding inpatient hospital services)
Adults with SMI	Report service expenditures as follows: <ul style="list-style-type: none">• MHBG (CMHS) SMI Column• By appropriate service expenditure line (501–511, excluding inpatient hospital services)
Flex Funds	Report service expenditures as follows: <ul style="list-style-type: none">• MHBG (CMHS) SED or SMI Column, in accordance with ADHS/DBHS Allocation Schedule• Line 504h, Flex Fund Services

B. COST ALLOCATION PLAN

The RBHA shall prepare an indirect cost allocation plan in conformance with appropriate federal regulations such as OMB Circular A-122 Cost Principles of Non-Profit Organizations. The cost principles described in OMB Circular A-122 will be the standard applied to Cost Allocation Plans submitted by the RBHA including for-profit entities. A list of individual costs to be allocated, along with the applicable base should be included in all Cost Allocation Plans. As per the OMB Circular A-122, actual conditions shall be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefiting functions. The essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived; a traceable cause and effect relationship; or logic and reason. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. In accordance with OMB Circular A-122, Cost Principles of Non-Profit Organizations, expenses should be recorded directly to the applicable program(s), if identifiable. If the program(s) cannot be readily identified, pro-rate the expense using the percentage of ADHS/DBHS service expense for each program. The use of revenue as the base for the allocation of all allowable general and administrative cost including corporate overhead is not acceptable. Revenue is not an equitable base for allocation because it has no relationship to cost nor does it have a relationship to the provision of services. This plan shall be submitted to ADHS/DBHS for approval by August 1 of each contract year and should identify items of cost and its allocation base. The Statement of Activities shall be reviewed for adherence to the RBHA's cost allocation plan and shall be an integral part of the RBHA's annual certified audit. Any issues of non-compliance with federal guidelines must be included in the certified audit report. All instances of questioned costs or procedural deficiencies related to Indirect Cost Plans, as identified in the certified audit reports, will be investigated by ADHS/DBHS, and are subject to repayment to ADHS/DBHS.

C. SANCTIONS

Failure to file with ADHS/DBHS, accurate, timely and complete financial statements and related deliverables may result in monetary penalties until such statements or deliverables are received by ADHS/DBHS. If a RBHA knowingly and willfully makes, or causes to be made, any false statement or misrepresentation of a material fact in any statement or disclosure filed pursuant to this guide, the RBHA may be fined accordingly. The amount of the sanction will be determined by the sanction committee guided by the Sanction Protocol.

The full amount of the sanction will be withheld from the RBHA's monthly payment. Revenue from specific programs will be reduced by the amount of the sanction. The RBHA should ensure that they report the full amount of the program's revenue then report the sanction in the same program as an administrative expense, on line 608, All Other Operating, then disclose on the Statement of Activities Schedule A Disclosure.

D. PHARMACY REBATES

Behavioral Health pharmacy rebates received shall be reported on the Statement of Activities line 510b, Pharmacy Rebates, and allocated to programs in conformance with OMB Circular A-122, Cost Principles of Non-Profit Organizations.

Behavioral Health and Physical Health rebate related expenses shall be reported on line 510c, Rebate Related Expense, and allocated to programs in conformance with OMB Circular A-122, Cost Principles of Non-Profit Organizations.

Physical Health pharmacy rebates received shall be reported on the Statement of Activities line 570c, Pharmacy Rebates, and allocated to programs in conformance with OMB Circular A-122, Cost Principles of Non-Profit Organizations.

E. COMMUNITY REINVESTMENT

Community Reinvestment expense should be reported on the Statement of Activities Line 710, Profit/(Loss) from Other, Non-ADHS/DBHS, Non-Operating and Unrelated Business, under the Mgmt & Gen Column and disclosed on the Statement of Activities, Schedule A Disclosure. The RBHA shall submit an annual Community Reinvestment Report to ADHS/DBHS by March 31 of each year (refer to Appendix I for template).

F. REPORTING REVENUE AND EXPENSES

- 1) All revenue received from ADHS/DBHS should be reported on line 401a, ADHS/DBHS Revenue (unless otherwise directed by ADHS/DBHS). This will be the starting point for calculating the Title XIX/XXI Reconciliation and the Non-Title XIX/XXI Profit Limit. Any adjustments to revenue as a result of Title XIX/XXI Reconciliations and Non-Title XIX/XXI Profit Limit calculations should be reported on line 401b, Reconciliation Settlement/Profit Limit Adjustments. Lines 401a and 401b are the basis for calculating the Expense Ratios and the Encounter Valuation.

Only ADHS/DBHS behavioral health related service expenses should be reported on lines 501 through 511. ADHS/DBHS behavioral health service expenses are totaled on line 513. ADHS/DBHS physical health related service expenses should be reported on lines 550 through 570 and are totaled on line 580. ADHS/DBHS Administrative Expenses for both behavioral health and physical health should be reported on lines 601 through 608 with a total on line 610. The service expense totals on lines 513 and 580 will be used to calculate the Service Expense Ratios; and the administrative totals on line 610 will be used to calculate the Administrative Expense Ratios.

- 2) Grants and Other Revenue received from other sources should be reported on line 402, Specialty and Other Grants. The related service expenses for this revenue source should be reported on line 520, Expenses for Specialty and Other Grants. The detailed/specific expenses should be reported on the Statement of Activities, Schedule A Disclosure. The related administrative expenses should be reported on Line 651, Administrative Expenses for Specialty and Other Grants.

Revenue and expenses received from Non ADHS/DBHS sources may be reported in any of the various program columns, if the funds are spent on activities closely related to that program. If not related to any of the pre-determined programs, it should be reported in the Non-Title XIX/XXI Other Column. These amounts are not figured in the Performance Ratios and Profit Limit.

Examples of Non ADHS/DBHS Revenue that should be reported on line 402:

Revenue from the Arizona Department of Housing

Revenue from City or County

Revenue from the Department of Economic Security

- 3) The net amount of any profit/(loss) from Other, Non ADHS/DBHS, Non-Operating and Unrelated Business should be reported on line 710 of the Statement of Activities. Details showing total revenue, service and administrative expenses should be disclosed on the Statement of Activities, Schedule A Disclosure. Revenue and expenses received from sources other than ADHS/DBHS or that cannot be classified as Specialty and Other Grants, should be reported here. These amounts are not figured into the Performance Ratios, Title XIX/XXI Reconciliations and Non-Title XIX/XXI Profit Limit Analysis.

Examples of Revenue and Expenses that should be reported on line 710 are as follows:

Revenue and Expenses from Provider Support

Revenue and Expenses from Rental Income

Revenue and Expenses from Photocopying Fees

Revenue and Expenses from Training Fees

Revenue and Expenses from Inter-RBHA Pharmacy Arrangements

Revenue from RBHA assessed Sanctions

Expenses from Community Reinvestment

G. PROVIDER PAYABLES

The RBHA shall manage available funding in order to continuously provide services throughout the contract year.

The RBHA shall manage provider payments to spread out funding for the entire contract year and shall promptly contract and distribute funds to subcontracted providers to avoid a build-up of payables toward the final quarters of the contract year. ADHS/DBHS will monitor the flow of service dollars from the RBHA to its subcontracted providers to ensure service dollars are getting to the provider community timely so they can be appropriately encountered. ADHS/DBHS reserves the right to request additional detailed information regarding the subcontracted provider payables, payouts and reversal of accruals, as necessary.

A Payable to ADHS/DBHS liability should be recorded for all non-contracted service funds received by the RBHA from ADHS/DBHS but not distributed to providers. A Payable to Provider liability should be recorded for all contracted funds due to providers.

The RBHA shall not retain excess provider payable amounts that are not assigned by provider to pay out to providers after the contract year end. Funds may be recouped from under-performing providers and paid to providers who have over-encountered and are exceeding performance expectations. An Analysis/Itemization of Provider Payables by category must be submitted monthly along with the Financial Reporting Package.

H. DEFERRED REVENUE

The RBHA is expected to regularly determine from their providers whether there will be unspent funds by the end of the contract year or state fiscal year in the case of general funds and Block Grant Funds. If general funds remain at the end of the fiscal year, providers are prohibited from recording deferred revenue; instead, these unspent general funds must be reported as a Payable to the RBHA and returned to the RBHA immediately for subsequent return to ADHS/DBHS. Title XIX/XXI, Grant and County revenue may be deferred at the end of the provider's fiscal year only under extenuating circumstances and after prior written approval of ADHS/DBHS. The RBHA must provide details of the provider's circumstances to ADHS/DBHS for review and prior approval.

I. PCP PARITY

PCP Parity should be reported on the Statement of Activities, line 401a, ADHS/DBHS Revenue, under the applicable funding source. Disclose PCP Parity Revenue on the Statement of Activities, Schedule A Disclosure under the Notes Section. PCP Parity related expenses should be reported on the Statement of Activities, line 511, Other ADHS/DBHS Service Expenses Not Reported Above, and disclosed accordingly on the Statement of Activities, Schedule A Disclosure.

Receivables and Payables related to PCP Parity should be treated in the same manner as other ADHS/DBHS Receivables and Payables. Disclose accordingly on the Statement of Financial Position, Schedule A Disclosure. Choose the applicable funding source from the drop down menu and type PCP Parity as the category identification.

J. PRIOR QUARTER COVERAGE

On January 1, 2014, AHCCCS implemented Prior Quarter Coverage eligibility consistent with Federal Regulation 42 CFR 435.915. AHCCCS is required to expand the time period during which AHCCCS pays for covered services for eligible individuals to include services provided during any of the three months prior to the month the individual applied for AHCCCS, if the individual met AHCCCS eligibility requirements during that month. Prior Quarter Coverage eligibility began January 1, 2014 which means that only individuals applying for AHCCCS in and after February 2014 may be determined to qualify for Prior Quarter Coverage. RBHAs are not responsible for payment for covered services received during the prior quarter. Upon verification or notification of Prior Quarter Coverage eligibility, providers will be required to bill AHCCCS for services provided during a prior quarter eligibility period.

K. FEES AND TAXES

As of the date in which this guide was issued, limited information was available regarding Health Insurers Fees. If the RBHA believes this fee is owed for ADHS/DBHS' line of business, accrue the payable to the Internal Revenue Service as a Trade Accounts Payable, line 205 on the Statement of Financial Position. The revenue for this fee will be paid to ADHS/DBHS from AHCCCS. The RBHA should accrue the anticipated revenue from ADHS/DBHS as a receivable in the Statement of Financial Position, line 103 and disclose accordingly in the Statement of Financial Position, Schedule A Disclosure. Accrue the revenue in the Statement of Activities, line 402 among the Title XIX/XXI programs as appropriate and disclose accordingly on the Statement of Activities, Schedule A Disclosure. Accrue the Health Insurer Fee in the Statement of Activities, line 651 as appropriate and disclose accordingly in the Statement of Activities, Schedule A Disclosure. The expenses should be allocated among the Title XIX/XXI programs based on previous year's revenue.

Premium tax is not assessed to the RBHA.

L. REQUESTS FOR OTHER INFORMATION

Upon ADHS/DBHS' request, the RBHA shall submit additional data or reports to supplement other financial information. The RBHA shall provide complete and accurate information no later than thirty (30) days after receipt of the request unless otherwise specified by ADHS/DBHS.

M. CONTRACT TERMINATIONS

In the year of contract terminations, ADHS/DBHS reserves the right to restate any final reports, including Title XIX/XXI Reconciliations, Non-Title XIX/XXI Profit Limit Analysis and Encounter Valuation, based on changes to revenue and expenses during the close-out period. The changes to revenue and expenses may result from, but are not limited to, prior period adjustments. The close-out period begins with contract termination and concludes when the RBHA has settled all contract related liabilities. The RBHA must continue to submit monthly financial statements until all contract liabilities have been paid.

N. FINANCIAL REPORTING TIMELINE

Due dates for deliverables that fall on a weekend or State recognized holiday will be due the next business day. Deliverables are due to the Compliance mailbox (email address BHSContractCompliance@azdhs.gov) and the Office of Financial Review mailbox (email address BHSOFR@azdhs.gov) or the Sherman Server as outlined in Exhibit 9 to the contract. Financial reports are considered timely when received by ADHS/DBHS in the required format.

Extensions must be requested in writing and addressed to the applicable Financial Analyst, Office of Financial Review. Requests must be received at least five (5) business days prior to ADHS/DBHS' filing date and must include the reason for the extension and the revised filing date. Requests for filing extensions will be reviewed and acknowledged.

VI. PERIODIC REPORTING REQUIREMENTS

The required monthly, quarterly and annual supplemental reports shall be submitted electronically (E-statements) in the Microsoft Excel format provided by ADHS/DBHS to ensure consistent reporting. The Certification Statement must be signed by the CFO and scanned to OFR within three business days of report submittal. The Draft and Annual Financial Reporting Packages must also be sent electronically, with the exception of the bound Auditor's Report. For reporting instructions, refer to Section VII. Financial Reporting Instructions.

RBHAs should review the Sarbanes-Oxley Act and consider applying the best practices contained within the Act; including rotating at least the lead and reviewing partners of the audit firm every five years.

A. MONTHLY FINANCIAL STATEMENTS

Monthly Financial Statements are *due to ADHS/DBHS 30 days after month-end* and must include the following reports:

1. Certification Statement
2. Statement of Financial Position
 - a. Schedule A Disclosure
3. Statement of Changes in Net Assets/Equity
4. Statement of Activities
 - a. Schedule A Disclosure
5. Non-Title XIX/XXI Monitoring
6. Footnotes
7. Behavioral Health Sub-Capitated and Block Expense Report
8. Physical Health Sub-Capitated and Block Expense Report
9. Statement of Cash Flows
 - a. Schedule A Disclosure
10. Financial Ratio Analysis Comparison Report
11. Title XIX/XXI Reconciliation
12. Non-Title XIX/XXI Profit Limit Analysis
13. Provider Payables

B. QUARTERLY FINANCIAL STATEMENTS

Quarterly Financial Statements are *due to ADHS/DBHS 30 days after quarter-end and 40 days after 4th quarter-end* and must include the following reports: (No monthly financial statement is due for the quarter end months)

1. Certification Statement
2. Statement of Financial Position
 - a. Schedule A Disclosure
3. Statement of Changes in Net Assets/Equity
4. Statement of Activities
 - a. Schedule A Disclosure
5. Non-Title XIX/XXI Monitoring
6. Footnotes
7. Behavioral Health Sub-Capitated and Block Expense Report
8. Physical Health Sub-Capitated and Block Expense Report
9. Statement of Cash Flows
 - a. Schedule A Disclosure
10. Financial Ratio Analysis Comparison Report
11. Title XIX/XXI Reconciliation
12. Non-Title XIX/XXI Profit Limit Analysis
13. BH LAG (IBNR) Report
14. PH LAG (IBNR) Report
15. FQHC/RHC Member Months Reports
16. Medicare Report (refer to Section VII. N. for additional information)
17. Provider Payables

For the General Fund, a fiscal year end adjusted and finalized process should occur resulting in a final June Reporting Package which is due to ADHS/DBHS sixty (60) days after state fiscal year end.

C. ANNUAL FINANCIAL STATEMENTS

1. DRAFT CONSOLIDATED AUDIT REPORTS

Due to ADHS/DBHS 75 days after the end of the contract year and must include the following reports:

- a. Statement of Financial Position
- b. Statement of Functional Expenses
- c. Supplemental Schedule of Title XIX/XXI and Non-Title XIX/XXI revenue and expenses, included as supplemental information under the auditor's report, all disclosures etc., and all applicable opinion letters.
- d. Single Audit Report prepared in accordance with OMB Circular A-133, (Also applies to For-Profit Entities). SABG and MHBG must be audited as major programs
- e. Annual Certification Statement signed by RBHA CFO
- f. Annual Supplemental Reports as outlined in C.3.

2. FINAL CONSOLIDATED AUDIT REPORTS

The final audit reporting package *is due to ADHS/DBHS 100 days after the end of the contract year* and includes the following:

- a. Annual Certification Statement signed by RBHA CFO
- b. Statement of Financial Position
- c. Statement of Functional Expenses
- d. Supplemental Schedule of Title XIX/XXI and Non-Title XIX/XXI revenue and expenses, included as supplemental information under the auditor's report, all disclosures etc., and all applicable opinion letters
- e. Single Audit Report prepared in accordance with OMB Circular A-133 (Also applies to For-Profit Entities). SABG and MHBG must be audited as major programs and paid for by the RBHAs even if these programs are not determined to be major programs by the Independent Auditor
- f. Bound Auditor's Report
- g. Annual Supplemental Reports as outlined in C.3.

3. ANNUAL SUPPLEMENTAL REPORTS

- a. Statement of Financial Position Reconciliation from 4th Quarter Submission to Audited Consolidated Financial Statements
- b. Schedule A Disclosure for Statement of Financial Position Reconciliation from 4th Quarter Submission to Audited Consolidated Financial Statements
- c. Statement of Changes in Net Assets/Equity
- d. Reconciliation of Changes in Net Assets/Equity from 4th Quarter Submission to Audited Consolidated Financial Statements
- e. Related Party Transactions and Certification
- f. Cash Flow
- g. Cash Flow Schedule A Disclosure
- h. Annual Statement of Activities (audited by program and Indirect Expenses allocated in accordance with the Cost Allocation Plan)
- i. Behavioral Health Sub-Capitated and Block Expense Report
- j. Physical Health Sub-Capitated and Block Expense Report
- k. Annual Statement of Activities Schedule A Disclosures
- l. Financial Ratios and Standards Report
- m. Title XIX/XXI Reconciliation
- n. Draft Profit Limit Analysis
- o. BH Lag Report
- p. PH Lag Report

D. RELATED PARTY FINANCIAL STATEMENTS

RBHAs shall submit electronically to ADHS/DBHS the Annual Audited Financial Statements of related parties with whom the RBHA conducted business transactions. The related parties' Annual Audited Financial Statements are due one hundred twenty (120) days after the related parties' fiscal year end.

RBHAs that contract with Related Parties to perform functions on behalf of the RBHA will provide an Annual Income Statement (reporting RBHA activities only) and accompanying documentation as agreed upon or other documentation deemed acceptable to ADHS/DBHS. The after-tax profit/(loss) greater than 4% from these statements will be combined with the RBHAs service profit/(loss) on an allocated basis.

The procedures are as follows:

- 1) RBHAs will provide separate Annual Income Statements and supporting documentation for each related party. A Certification Statement must also be submitted. Use the Disclosure Statement/Related Party Transactions Certification Form. Circle the title, as applicable, of the document being certified. These reports will be the basis for determining the related parties' after-tax profit/(loss) greater than 4% that will be combined with the RBHA's service profit/(loss) when calculating the profit limit.
- 2) Supporting documentation will include but is not limited to, copies of Contracts, Rate Schedules, General Ledger/Sub-Ledger entries, Prescription Medication Expense Reports, allocation worksheets showing how allocation rates for the RBHA services were derived, how profit is allocated among applicable ADHS/DBHS programs and worksheets showing how direct and/or indirect costs were allocated.
- 3) Supporting documentation may not be identical for each entity. The documentation submitted should be customized to suit each entity's circumstances.
- 4) RBHAs will coordinate the preparation of these reports along the submission timelines of their Annual Audit.
- 5) ADHS/DBHS and the RBHA agree to cooperate in complying with this reporting process should there be issues not previously addressed or that were not clear.

The final profit limit will be determined after ADHS/DBHS' final verification of the documents submitted for review. The Annual Income Statements and supporting documentation are due to ADHS/DBHS by December 15 of each year.

E. RBHA FINANCIAL DISCLOSURE STATEMENT

The RBHA Financial Disclosure Statement is a required ad hoc deliverable. This deliverable is due upon request or within thirty-five (35) days of change in ownership or control. Refer to Appendix C-6 for the RBHA Financial Disclosure Statement and Certification.

F. PROVIDER AUDITS

RBHAs shall submit electronically and hard copies in a binder, the most recent Annual Audited Financial Statements, including Single Audits if applicable, of their Top 20 Providers by May 31. Use ADHS/DBHS Revenue to determine the Top 20 Providers. In addition, RBHAs should also provide copies of audits for providers that receive PATH funds even if the provider does not fall within the RBHAs Top 20 based on revenue.

RBHAs should not procure the audit firm(s) on behalf of providers.

VII. FINANCIAL REPORTING INSTRUCTIONS

A. GENERAL INSTRUCTIONS

Financial data shall be reported in the format prescribed by ADHS/DBHS. Unless otherwise noted, Generally Accepted Accounting Principles (GAAP) should be observed in the preparation of each report. Separate instructions and template formats will be provided by ADHS/DBHS in Microsoft Excel format (E-Statements). All amounts are to be rounded and reported in whole dollars. An explanation of adjustments made for prior periods and adjustments to prior months in the current contract year are to be disclosed on “Schedule A Disclosures”. Predefined classifications are to be utilized prior to reporting in the “Other” column or “Other” line item categories. Items included in the “Other” categories are to be itemized on a supporting schedule. If there are insufficient instructions for a specific category, the RBHA shall request direction from the ADHS/DBHS Chief Financial Officer. A perceived lack of instruction is not sufficient grounds for failure to report accurately. ADHS/DBHS has provided the required reporting formats to ensure consistent reporting among all RBHAs. It is the RBHA’s responsibility to ensure that all reports submitted are accurate, complete and timely. Adherence to GAAP is the overriding responsibility of the RBHA. If there is a conflict between GAAP and these instructions, the RBHA should advise the ADHS/DBHS Chief Financial Officer of such conflict.

ADHS/DBHS recognizes that interim financial statements are based on information available at the end of the reporting period, which may be incomplete. Revisions to a prior period will invalidate the previously submitted report. If material revisions are submitted after the ADHS/DBHS due date, then sanctions may be imposed for untimely or inaccurate reporting.

The ADHS/DBHS Financial Reporting Guide, RBHA audited financial statements, quarterly Statement of Activities, Statement of Financial Position, Statement of Cash Flows and related Schedule A Disclosures will be posted on ADHS/DBHS’ web site. The address is <http://www.azdhs.gov>. ADHS/DBHS will refer requests for copies of the above documents to the RBHA. It is the RBHA’s responsibility to provide copies to the requesting entity and may charge a reasonable fee.

B. CERTIFICATION STATEMENT

All Financial Reporting Packages, including the Draft and Final, must include a Certification Statement, signed and dated by the Chief Financial Officer. Unsigned or unlabeled reports will not be accepted. The signature of the Chief Financial Officer is confirmation that the reports have been reviewed by the RBHA for accuracy and completeness. Refer to Appendix A of this guide for an example of the Certification Statement.

C. STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position illustrates the financial position of the RBHA as of the reporting date. It is the primary source of information about the RBHA's liquidity and financial stability. Refer to Appendices B-1 and B-2 of this guide for an example of the Statement of Financial Position and the Schedule A Disclosure.

Instructions for the Statement of Financial Position

LINE #	ACCOUNT	DESCRIPTION
101	Cash	Cash and cash equivalents available for use. Cash equivalents are investments maturing 90 days or less from the date of purchase.
102	Current Investments	Readily saleable investments maturing one year or less from the date of purchase and expected to be redeemed or sold within one year of the statement date.
103	Accounts Receivable (net)	Report Accounts Receivable net of allowance for doubtful accounts. Amount should include any amount receivable from ADHS/DBHS and sources other than ADHS/DBHS. (Disclose on Schedule A)
104	Notes Receivable (current portion)	Principal amounts on notes receivable due to the RBHA within one year of the statement date.
105	Prepaid Expenses	All prepaid expenses.
106	Other Current Assets	All other current assets not reported elsewhere on the Statement of Financial Position. (Disclose on Schedule A)
107	Total Current Assets	Total of the above accounts.
108	Land	Land.
109	Building	Buildings, capital leases, and other improvements.
110	Leasehold Improvements	Capital improvements to facilities leased.
111	Furniture and Equipment	Office equipment, data processing hardware and software (where permitted), and furniture, as well as similar assets held under capital leases.
112	Vehicles	Vehicles owned or leased.
113	Total Property and Equipment	The total of lines 108 through 112.
114	Less: Accumulated Depreciation	The total of all depreciation and amortization accounts relating to the various asset accounts, as set forth above.
115	Net Property and Equipment	Line 113 minus line 114.
116	Notes Receivable (net of current portion)	Loans payable to the RBHA over a period exceeding one year from the statement date.
117	Performance Bond	Performance Bond amount. .
118	Long Term Investments	Investments with a maturity date of more than one year from the statement date.
119	Deposits	Refundable deposits.
120	Other Non-Current Assets	All other non-current assets not reported elsewhere on the Statement of Financial Position. (Disclose on Schedule A)
121	Total Non-Current Assets	Total of Lines 116 through 120.
122	TOTAL ASSETS	Line 107 plus 121.

Instructions for the Statement of Financial Position Continued

LINE #	ACCOUNT	DESCRIPTION
201	Incurred But Not Reported Claims	Fee-For-Service estimation. Disclose amount on Schedule A by current year and prior year(s)
202	Reported But Unpaid Claims	Claims that have been reported but remain unpaid at the statement date.
203	Payable to ADHS/DBHS	Accruals for reconciliations, profit in excess of the contract profit limit, general fund profits and all other funds due ADHS/DBHS. (Disclose on Schedule A)
204	Payable to Providers	Amounts owed to providers for block payment, sub-capitation or other agreements.
205	Trade Accounts Payable	Amounts owed to creditors for the acquisition of goods and services, other than behavioral health services.
206	Accrued Salaries and Benefits	Amounts owed to employees for wages and benefits earned but not paid.
207	Long-term Debt (current portion)	Principal amounts on loans, notes, and capital lease obligations due within one year of the statement date.
208	Deferred Revenue	Accruals for deferred revenue/unearned revenue, as prescribed by GAAP. (Disclose on Schedule A)
209	Risk Pool Payable	Amounts accrued for risk pools established by the RBHA.
210	Other Current Liabilities	All other current liabilities not reported elsewhere on the Statement of Financial Position. (Disclose on Schedule A)
211	Total Current Liabilities	Total of lines 201 through 210.
212	Long-term debt (net of current portion)	The long-term portion of principal on loans, notes, and capital lease obligations.
213	Loss Contingencies	Loss Contingency accruals, which are non-current in nature, as prescribed by GAAP. (Disclose on Schedule A)
214	Other Non-current Liabilities	All other non-current liabilities not reported elsewhere on the Statement of Financial Position. (Disclose on Schedule A)
215	Total Non-current Liabilities	Total of lines 212 through 214.
216	Total Liabilities	Line 211 plus line 215.
217	Net Assets/Equity	Line 122 – 216. (Disclose Restricted Net Assets on Schedule A).
218	TOTAL LIABILITIES AND NET ASSETS/EQUITY	Line 216 plus line 217.

D. STATEMENT OF CHANGES IN NET ASSETS/EQUITY

The Statement of Changes in Net Assets/Equity includes changes due to Title XIX/XXI and Non-Title XIX/XXI activities and reflects the current impact of revenue and expenses on the RBHA's financial position. Refer to Appendix B-3 of this guide for an example of the Statement of Changes in Net Assets/Equity.

Instructions for the Changes in Net Assets/Equity

Report Line	Description
Beginning Balance	Prior Year's Ending Balance
Net Surplus (Net of Dividends Paid)	<u>YTD Inc (Dec) in Net Assets</u>
Net Earnings for the period ended	Net Assets/Equity from Statement of Activities
Dividends Paid	Total Dividends Paid
Prior Period Adjustments	Total of Cumulative Adjustments from Prior Period
Ending Balance	<u>Total Ending Net Assets</u> Net Assets/Equity from Statement of Activities

E. STATEMENT OF ACTIVITIES

The Statement of Activities encompasses year-to-date revenue and expenses for Title XIX/ XXI, Non-Title XIX/XXI, Federal and County programs. All items are to be reported using the accrual method of accounting based on funding categories. The intent of the statement is to capture, on an accrual basis, the revenue of the RBHA and to match that revenue with related expenses by each funding program. Any expense allocation shall be made in a consistent manner and shall be in compliance with the cost allocation plan. Refer to Appendices B-4 and B-5 of this guide for examples of the Statement of Activities and the Schedule A Disclosure.

Instructions for the Statement of Activities

Unless otherwise noted, revenue and expenses shall be accrued according to GAAP. Revenue and expenses shall be reported under the applicable funding program column in the line indicated in these instructions.

Revenue is to be calculated and accrued as follows:

- a. Title XIX/XXI revenue should be accrued using the projected number of eligible clients provided by AHCCCS multiplied by the approved capitation rates currently being paid, unless the most recent proposed capitation rates were already approved and are awaiting payment. Any deviations from the above must be pre-approved in writing.
- b. Non-Title XIX/XXI revenue is to be accrued using 1/12th of the annual allocation as reported on the ADHS/DBHS Allocation Schedule. Revisions to the allocation may occur throughout the year, but until the RBHA is notified in writing of any changes, the amount reported on the Allocation Schedule (or Payment Schedule if appropriate) is the best and most probable estimate of what ADHS/DBHS will pay out. Prior written approval must be obtained from ADHS/DBHS for any deviations from the ADHS/DBHS Allocation Schedule.
- c. Other revenue sources should be accrued in accordance with GAAP (i.e. CERs and revenue sources other than ADHS/DBHS).

Service expenses are to be calculated as part of the IBNR calculation and allocated on a consistent basis in accordance with GAAP within each funding program. Refer to Section VII. Financial Reporting Instructions, L. BH and PH Lag Reports for more information.

Service expenses should be allocated to service line items and to each funding program based on current year service utilization/encounter data.

Service expenses are to be reported in accordance with contractual requirements, AHCCCS Financial Reporting Guide for Acute Health Care Contractors and Appendix E of this guide for Physical Health, ADHS/DBHS Guides and Manuals and the ADHS/DBHS Financial Reporting Guide, Appendix D for Behavioral Health.

Administrative expenses shall be reported in conformance with the RBHA's cost allocation plan. Refer to Section V. Reporting Issues, B. Cost Allocation Plan for more information.

All Non ADHS/DBHS revenue and expenses shall be reported and disclosed separately on line 710, Profit/(Loss) from Other, Non ADHS/DBHS, Non-Operating and Unrelated Business.

Line Item Instructions for the Statement of Activities

LINE	ACCOUNT	DESCRIPTION
Revenue		Revenue
401	Revenue Under ADHS/DBHS Contract	Revenue Under ADHS/DBHS Contract
a	ADHS/DBHS Revenue	Accrued Revenue for Title XIX/ XXI, Non-Title XIX/XXI, Federal and County
b	Reconciliation Settlement/Profit Limit Adjustment	Accrue estimated reconciliation settlements and profit limit in the period that they are earned.
402	Specialty & Other Grants	Other Revenue earned from specialty and other grants. (Disclose on Schedule A)
403	Interest/Investment Income	Interest/Investment income earned on performance bond or other investments should be reported in the Management & General Column
490	TOTAL REVENUE	Sum of line 401 through line 403
EXPENSES		EXPENSES
Behavioral Health Service Expenses		Behavioral Health Service Expenses
501	Treatment Services	Treatment Services
a	Counseling	Counseling
1	Counseling, Individual	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
2	Counseling, Family	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
3	Counseling, Group	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Assessment, Evaluation and Screening	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Other Professional	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	<i>Total Treatment Services</i>	The total of lines 501 a through c
502	Rehabilitation Services	Rehabilitation Services
a	Living Skills Training	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Cognitive Rehabilitation	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Health Promotion	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide

LINE	ACCOUNT	DESCRIPTION
d	Supported Employment Services	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
e	<i>Total Rehabilitation Services</i>	The total of lines 502 a through d
503	Medical Services	Medical Services
a	Medication Services	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Medical Management	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Laboratory, Radiology & Medical Imaging	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	Electro-Convulsive Therapy	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
e	<i>Total Medical Services</i>	The total of lines 503 a through d
504	Support Services	Support Services
a	Case Management	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Personal Care Services	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Family Support	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	Peer Support	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
e	Home Care Training to Home Care Client	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
f	Unskilled Respite Care	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
g	Supported Housing	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
h	Flex Fund Services	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
i	Transportation	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
j	<i>Total Support Services</i>	The total of lines 504 a through i
505	Crisis Intervention Services	Crisis Intervention Services
A	Crisis Intervention - Mobile	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
B	Crisis Intervention - Stabilization	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
C	Crisis Intervention - Telephone	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
D	<i>Total Crisis Intervention Services</i>	The total of lines 505 a through c
506	Inpatient Services	Inpatient Services
a	Hospital	Hospital
	1 Psychiatric (Provider Types 02 & 71)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
	2 Detoxification (Provider Types 02 & 71)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Sub-acute Facility	Sub-acute Facility
	1 Psychiatric (Provider Types B5 & B6)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
	2 Detoxification (Provider Types B5 & B6)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Residential Treatment Center (RTC)	Residential Treatment Center (RTC)
	1 Psychiatric - Secure & Non-Secure Provider Types (78, B1, B2, B3)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
	2 Detoxification - Secure & Non-Secure Provider Types (78, B1, B2, B3)	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	Inpatient Services, Professional	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
e	<i>Total Inpatient Services</i>	The total of lines 506 a through d
507	Residential Services	Residential Services
a	Behavioral Health Residential Facilities	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Reserved for future use	

LINE	ACCOUNT	DESCRIPTION
c	Room and Board	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	<i>Total Residential Services</i>	The total of lines 507 a through c
508	Behavioral Health Day Program	Behavioral Health Day Program
a	Supervised Day Program	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
b	Therapeutic Day Program	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
c	Medical Day Program	Refer to Appendix D Crosswalk to Behavioral Health Covered Services Guide
d	<i>Total Behavioral Health Day Program</i>	The total of lines 508 a through c
509	Prevention Services	Prevention Services
a	Prevention	Non-Title XIX/XXI Prevention Services
b	HIV	Non-Title XIX/XXI HIV Prevention
c	<i>Total Prevention Services</i>	The total of lines 509 a through b
510	Pharmacy Expense	Pharmacy Expense
a	Pharmacy Expense	Pharmacy expense – cost of drugs only
b	Less: Pharmacy Rebate	Pharmacy Rebate , allocated by program
c	Rebate Related Expense	Behavioral and Physical Health Rebate related expense, allocate by program – expense related to collection of rebate
d	<i>Total Pharmacy Expense</i>	The net total of lines 510 a through c
511	Other ADHS/DBHS Service Expenses Not Reported Above	Other ADHS/DBHS service expenses that are not indicated above. (Disclose on Schedule A)
513	Subtotal Behavioral Health Service Expenses	Total behavioral health service expenses, lines 501 through 511
520	Service Expenses from Non ADHS/DBHS Sources	Service expense not related to ADHS/DBHS revenue; allocate to programs (Disclose on Schedule A)
540	Total Behavioral Health Service Expenses	The total of lines 513 and 520
580	Total Physical Health Service Expenses	Total Physical Health Service Expenses from 580 below
585	Total Service Expense	The total of lines 540 and 580
589	Less: Third Party Liability	Third-party liability insurance recovered from third party insurances as described in the ADHS/DBHS Provider Manual
590	Net Total Service Expenses	Line 585 minus line 589
599	Gross Profit/(Loss) from Operations	Line 490 minus 590
Physical Health Service Expenses		Physical Health Service Expenses
550	Hospitalization	Hospitalization
a	Hospital Inpatient	Refer to Appendix E Crosswalk to Physical Health Covered Services
b	Total Hospitalization	Line 550a
560	Medical Compensation	Medical Compensation
a	Primary Care Physician	Refer to Appendix E Crosswalk to Physical Health Covered Services
b	Referral Physician	Refer to Appendix E Crosswalk to Physical Health Covered Services
c	Other Professional	Refer to Appendix E Crosswalk to Physical Health Covered Services
d	Total Medical Compensation	The total of lines 560 a through c
570	Other Medical Expenses	Other Medical Expenses
a	Emergency Facility Services	Refer to Appendix E Crosswalk to Physical Health Covered Services
b	Pharmacy	Refer to Appendix E Crosswalk to Physical Health Covered Services
c	Less: Pharmacy Rebate	Refer to Appendix E Crosswalk to Physical Health Covered Services
d	Lab, X-Ray and Medical Imaging	Refer to Appendix E Crosswalk to Physical Health Covered Services
e	Outpatient Facility	Refer to Appendix E Crosswalk to Physical Health Covered Services
f	Durable Medical Equipment	Refer to Appendix E Crosswalk to Physical Health Covered Services
g	Dental	Refer to Appendix E Crosswalk to Physical Health Covered Services

LINE	ACCOUNT	DESCRIPTION
h	Transportation	Refer to Appendix E Crosswalk to Physical Health Covered Services
i	Nursing Facility, Home Health Care	Refer to Appendix E Crosswalk to Physical Health Covered Services
j	Physical Therapy	Refer to Appendix E Crosswalk to Physical Health Covered Services
k	Shared Savings Arrangements	Refer to Appendix E Crosswalk to Physical Health Covered Services
l	Miscellaneous Medical Expenses	Refer to Appendix E Crosswalk to Physical Health Covered Services
m	Total Other Medical Expenses	The total of lines 570 a through l
580	Total Physical Health Medical Service Expenses	Total Physical Health Medical Services Expense (also reported above on line 580)
Administrative Expenses:		Administrative Expenses
601	Compensation	Accrued compensation expense, including employee benefits and taxes, to administrative personnel
602	Management Fees	Management fees paid or payable for the current period to a parent or outside management company
603	Professional & Outside Services	Professional and outside services expense
604	Interpretive/Translation Services	Interpretive, sign language or translation services
605	Occupancy	Building rent or other occupancy expense
606	Depreciation	Depreciation and amortization expense of building, leasehold improvements, furniture, and equipment
607	Care Management	Administrative expenses relating to the process, methods and activities used to identify high/risk high/cost SMI members receiving physical health services and designing clinical interventions or alternative treatment to reduce risk, cost and help members achieve better health care outcomes
608	All Other Operating Not Reported Above	Other ADHS/DBHS administrative expenses not classified above. (Disclose on Schedule A)
610	Subtotal ADHS Administrative Expenses	The total of lines 601 through 608
650	Encounter Valuation Sanctions	Encounter Valuation Sanctions assessed for not meeting the final minimum encounter requirement
651	Administrative Expenses for Specialty and Other Grants	Administrative expenses from Specialty and Other Grants activities. (Disclose separately on Schedule A)
690	Total Administrative Expenses	Line 610 plus line 651
700	Profit/(Loss) from Operations	Line 599 minus lines 610, 650 and 651
710	Profit/(Loss) from Other, Non ADHS/DBHS, Non-operating and Unrelated Business	Revenue and expense from Other, Non ADHS/DBHS, Non-operating and Unrelated Business activities. (Disclose separately on Schedule A)
720	Net Pre-Tax Profit/(Loss)	The net of line 700 and line 710
750	Income Taxes	For-profit entity income tax expense
a	ADHS Income Taxes	Income tax expense related to net gain from ADHS operations
b	Non ADHS Income Taxes	Income tax expense related to net gain from Non ADHS operations
799	Total Income Taxes	Line 750a plus 750b
800	Net After-Tax Profit/(Loss)	Line 720 minus line 799

F. FOOTNOTE DISCLOSURE REQUIREMENTS

Monthly footnote disclosures are required in order to supplement ADHS/DBHS' understanding of the financial statements and supplemental schedules. The following list represents minimum expected disclosures and is not intended to be all-inclusive. Disclosures required by GAAP or GASB should also be included. If the disclosure does not apply, indicate so by writing "None" or "Not Applicable (N/A)" next to the numbered footnote.

1) ORGANIZATIONAL STRUCTURE

Describe the RBHA's organizational structure, location of headquarters, and a brief summary of the operations. Also describe the relationship between the RBHA and its related parties, including the services provided by each related party.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Describe accounting policies relating to significant balance sheet line items such as, but not limited to:

- Cash and Cash Equivalents
- Investments
- Accounts Receivable
- IBNR (Disclose the methodology used to calculate the IBNR balances)
- RBUCs

Describe revenue and expense recognition policies for the following:

- Revenue
- Service Expense Methodology Allocation By Program - Disclose Service Expense Allocation Methodologies by Program for current reporting package. Include the encounter timeframe used to allocate expenses
- Administrative Expenses
- Taxes

Describe changes in accounting methodologies which have taken place during the current contract year.

3) OTHER AMOUNTS

Describe amounts included in the "other" and "miscellaneous" categories in the Statement of Financial Position and Statement of Activities if not detailed in the Schedule A Disclosures.

Disclose items recorded as "Other" in the category for Payable to ADHS (line 203) Section of the Statement of Financial Position Schedule A:

4) PLEDGES/ASSIGNMENTS AND GUARANTEES

Describe any pledges, assignments, or collateralized assets and any guaranteed liabilities not disclosed on the Statement of Financial Position.

5) PERFORMANCE BOND

Disclose type of security and amount by which the RBHA satisfied the ADHS/DBHS performance bond requirement. This disclosure is required whether or not the amounts are included in the financial statements.

6) MATERIAL ADJUSTMENTS

Disclose and describe any material adjustments made during the current reporting period. Include those adjustments that may relate to a prior period, specifically IBNR adjustments, that affect the financial statements and provide detail for which period(s) the adjustment(s) relate.

7) INCURRED BUT NOT REPORTED (IBNR) CLAIMS PAYABLE ANALYSIS

Explain large fluctuations and/or revisions in estimates and the factors that contributed to the change in the IBNR Claims Payable balances from the prior quarter. Specifically, address changes of more than 5%. Explanations should detail the amount of the adjustments by quarter.

8) CONTINGENT LIABILITIES

Provide details of any pending claims, malpractice or other claims asserted against the RBHA, as well as the status of the case, potential financial exposure and expected resolution.

9) NON-COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES

Provide an explanation for Ratios that are out of compliance, the factors causing the non-compliance and the plan to bring this ratio into compliance, including specifying the expected month that the compliance will be evidenced in the Financial Reporting Package.

In addition, the RBHA should identify factors contributing to non-compliance of the Title XIX/XXI Reconciliation and Profit Limit on a monthly basis and shall outline their plan to bring this non-compliance into compliance, including specifying the month that the compliance will be evidenced in the Financial Reporting Package.

10) FLUCTUATIONS IN STATEMENT OF FINANCIAL POSITION ACCOUNTS

Describe changes in each account greater than 5% of the Total Asset or Total Liabilities/Net Assets subcategory from the prior month (or quarter to quarter when applicable).

11) PHARMACY REBATES/DISCOUNTS

Provide the amount of pharmacy rebates or discounts that the RBHA has recorded for the reporting period (line 510b). Indicate whether or not the pharmacy rebates are included in the BH and PH Lag Reports for IBNR Claims Payable.

12) INTEREST ON LATE CLAIMS

Report interest payments to providers on late claims, including claims paid outside of the payment system if applicable.

13) SANCTIONS

Report any accrued sanctions assessed by ADHS/DBHS and the Statement of Activities line item in which they were reported. Provide the following information for sanctions assessed to providers: provider name, sanction amount, reason for the sanction and the period for which the sanction was imposed.

14) PROVIDER INCENTIVES

Provider the amount of provider incentives reported for the period. Indicate the Statement of Activities line number where these are reported.

15) SHARED SAVINGS ARRANGEMENTS

Include a general description of any new or discontinued Shared Savings Arrangements.

16) BLOCK GRANTS

Provide explanations for under/over expending in each block grant category compared to the SABG (SAPT) and the MHBG (CMHS) SED and SMI annual allocations by category. Indicate whether a re-allocation request will be submitted and when.

Disclose SABG (SAPT) Children's Expenses on a State Fiscal Year-To-Date basis.

17) PRIOR PERIOD ADJUSTMENTS

Disclose any adjustments made to previously submitted financial statements, including those that affect the current period financial statements

G. SUB-CAPITATED AND BLOCK EXPENSE REPORT

The RBHA should report behavioral health and physical health sub-capitated and block expenses, by program and expense category, on a monthly basis. This information is used in capitation rate setting and assists in calculating reconciliations. Refer to Appendices B-8 and B-9 of this guide for examples of the Behavioral Health and Physical Health Sub-Capitated and Block Expense Reports.

H. STATEMENT OF CASH FLOWS

The primary purpose of the Statement of Cash Flows is to provide information about an entity's cash inflows and cash outflows during an accounting period. Cash flows are classified in terms of operating, investing and financing activities. Significant non-cash investing and financing activities not affecting cash must also be disclosed in the Statement of Cash Flows. The indirect method is used for financial reporting. For further guidance, the RBHA should refer to SFAS 117. Refer to Appendices B-10 and B-11 of this guide for an example of the Statement of Cash Flows and Schedule A Disclosure.

Segment Description	Instructions (Indirect Method)
CASH FLOWS FROM OPERATING ACTIVITIES: Changes in Net Assets/Equity Adjustments to Reconcile Excess of Revenue Over/(Under) Expenses to Net Cash Provided (used) by Operating Activities: Depreciation and Amortization Changes in Operating Assets and Liabilities: (Increases)/Decreases in Assets: Current Investments Receivables Interest Receivable Inventory and Prepaid Expenses Deposits Other Increases/(Decreases) in Liabilities: IBNR RBUC Accounts Payable to ADHS/DBHS Accounts Payable to Providers Interest Payable Trade Accounts Payable Accrued Salaries and Benefits Other Liabilities NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	Begin with the Revenue Over/(Under) Expenses for the period, as reported on the Statement of Activities. Each Statement of Financial Position account should be analyzed to calculate any difference in accounts from the prior period. The effects of all deferrals of prior operating cash receipts and payments, accruals of expected future operating cash receipts and payments pertaining to the entity's operating activities should be reported, each as a line item, in this segment of the statement.
CASH FLOWS FROM INVESTING ACTIVITIES: Proceeds from Sale of Property and Equipment Purchase of Property and Equipment (Describe on Schedule A) Proceeds from Sales of Investments Purchase of Investments NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	Cash flows from investing activities include the results of analyses of the Statement of Financial Position accounts pertaining to the entity's investing activities. Purchases and sales of investments, furniture, equipment, and other related assets are reflected in this segment of the statement.
CASH FLOWS FROM FINANCING ACTIVITIES: Contributions from Parent Dividends Paid Acquisition of Debt (Describe on Schedule A) Payment of Lease Obligations Payment of Other Debts (Describe on Schedule A) NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	Cash flows from financing activities include the results of analyses of Statement of Financial Position accounts pertaining to financing activities, such as contributions from parent, dividends paid, acquisition and repayment of debts, long-term leases, etc.
NET INCREASE/(DECREASE) IN CASH	This is the net increase/decrease in cash during the period.
BEGINNING CASH	The cash balance at the beginning of the period.
ENDING CASH BALANCE** **Must agree with Cash Balance reported on the Balance Sheet	The sum of net increase/decrease and beginning cash balance.

I. FINANCIAL RATIO ANALYSIS COMPARISON REPORT

This is a report generated from the E-statements for analysis purposes. Refer to Appendix B-12 of this guide for an example of the Financial Ratio Analysis Comparison Report.

Instructions for the Financial Ratio Analysis Comparison Report

The majority of the amounts are linked from other statements. The following fields require input:

- Equity Per Enrolled Member – input the number of enrolled members. If applicable, also input the following amounts: Performance Bond reported on Statement of Financial Position, Due from Affiliates, Guarantees of Debts/Pledges/Assignments and other assets deemed restricted by ADHS/DBHS.
- Maintenance of Minimum Capitalization – input monthly capitation and Non-Title XIX/XXI Payment

J. TITLE XIX/XXI RECONCILIATION PROCESS

Refer to Section IV. C. 7 for general information regarding the Reconciliation Process and Appendix B-13 of this guide for an example of the Title XIX/XXI Reconciliation Report.

The reconciliation process applies to the Title XIX/XXI programs/populations. The reconciliation shall relate to service expenses during the prospective and PPC period of enrollment including sub-capitated and block payment arrangement expenses (Refer to the PPC Expenses Section below for details on PPC Expenses during the first year). The amount of the reimbursement to be reconciled against will be Net Capitation/Service Revenue (Refer to Appendix F for calculation). ADHS/DBHS will recoup/reimburse 100% of a RBHA's reasonable costs in excess of 4% profit or loss. It is ADHS/DBHS' intent that this recoupment/reimbursement will be determined using adjudicated encounter data including sub-capitated and block payment arrangement expense reports. The provision for income tax will not be added to service expense.

PPC Expenses

For a new RBHA, all physical and behavioral health PPC expenses for dates of service prior to the contract start date will be separately included in the reconciliation at 100% with no risk band. For an existing RBHA (incumbent), all physical health PPC services for dates of service up to the contract end date will be separately included in the reconciliation at 100% with no risk band. Physical health services will be determined by date of service, primary diagnosis code, and the integrated health plan specific id. All behavioral health PPC services with dates of service prior to the contract start date will be excluded from the reconciliation.

ADHS/DBHS Responsibilities

No sooner than six (6) months after the end of the contract year, ADHS/DBHS shall perform an initial reconciliation of actual service expense to net capitation/service revenue paid for the Title XIX/XXI program/populations (See Appendix F for calculation of sample profit and loss scenarios). ADHS/DBHS will utilize fully adjudicated encounters and sub-capitated and block payment arrangement expenses reported by the RBHA to determine the actual service expense. Non-Title XIX/XXI encounters and encounters for Title XIX/XXI members for non-covered services will be excluded. ADHS/DBHS will compare adjudicated encounters and sub-capitated and block payment arrangement expense information to the financial statements and other RBHA submitted files for reasonableness and may perform an audit of self-reported sub-capitated and block payment arrangement expenses included in the reconciliation.

ADHS/DBHS will provide the RBHA with the data used for the initial reconciliation and set a period for the RBHA to review and comment on the reconciliation. Upon completion of the review period, ADHS/DBHS will evaluate the RBHA's comments and make any adjustments to the data or the reconciliation as needed. ADHS/DBHS may then process partial distributions/recoupments with future capitation payments.

A second and final reconciliation will be performed no sooner than twelve (12) months after the end of the contract year to be reconciled. This will allow for the completion of the claims lag and encounter reporting. ADHS/DBHS will provide the RBHA with the data used for the final reconciliation and set a period for review and comment on the reconciliation. Upon completion of the review period, ADHS/DBHS will evaluate the RBHA's comments and make any adjustments to the data or the reconciliation as needed. Any adjustment to the amount to be paid or recouped as a result of the final reconciliation will be made with a future capitation payment.

ADHS/DBHS limits the service profit/(loss) on Title XIX/XXI programs/populations to +/-4% of Net Capitation/Service Revenue. Non CMDP Child, CMDP Child, GMH/SA, SMI Integrated and SMI Non Integrated programs/populations will be reconciled in aggregate. However, the RBHA shall separately calculate profits and losses for the Children population (Non CMDP Child and CMDP) and the Adult population (SMI Integrated, SMI Non Integrated and GMH/SA (which includes Title XXI Adult)). Excess service profit in the Children population shall not be used to offset any service losses in any other program. Excess profits in the Adult population may be used to offset service losses in the Children population. DD Child and DD Adult will be separately reconciled in aggregate. (Refer to Appendix F for the calculation).

It is ADHS/DBHS' intent to use adjudicated encounters including sub-capitated and block payment arrangement expenses as actual service expense. Profits and losses in excess of the risk band percentage will either be recouped or reimbursed by ADHS/DBHS in the reconciliation. Income Taxes are excluded in the reconciliation.

Any encounter data issues identified that are the result of an error by AHCCCS or ADHS/DBHS will be corrected prior to the final reconciliation. Upon review of the initial reconciliation data, ADHS/DBHS may make changes as necessary to the reconciliation methodology to address any data issues discovered.

RBHA Responsibilities

The RBHA shall maintain financial statements that separately identify the Title XIX/XXI programs/populations (Non CMDP Child, CMDP Child, DD Child, DD Adult, GMH/SA, SMI Integrated and SMI Non Integrated) and shall submit statements as required by contract and in the format specified in Appendix B-13 of this guide.

The RBHA is required to monitor and keep a separate analysis/spreadsheet of their interim reconciliation payable/receivable calculations to be reported to ADHS/DBHS on a monthly basis as part of the financial statement package. The analysis should be separately identified by program/population (Non CMDP Child, CMDP Child, DD Child, DD Adult, GMH/SA, SMI Integrated and SMI Non Integrated). However, the RBHA shall separately calculate profits and losses for the Children population (Non CMDP Child and CMDP) and the Adult population (SMI Integrated, SMI Non Integrated and GMH/SA (which includes Title XXI Adult)). Excess service profit in the Children population shall not be used to offset any service losses in any other program. Excess profits in the Adult population may be used to offset service losses in the Children population. DD Child and DD Adult will be separately reconciled in aggregate. (Refer to Appendix F for the calculation).

The RBHA shall make monthly accruals for this reconciliation on their financial statements submitted to ADHS/DBHS. The details of any adjustment must be disclosed by program/population on Schedule A of the Statement of Financial Position.

The required steps are as follows:

- 1) Calculate the Excess Profit/(Loss) for each of the Title XIX programs.
- 2) Enter the amount of an excess profit calculated from the monthly financial statement reconciliation template as a negative number on line 401b on the Statement of Activities under the applicable program. Enter the amount of an excess loss calculated from the monthly financial statement reconciliation template as a positive number on line 401b on the Statement of Activities under the applicable program.

- 3) Enter the amount of an excess profit calculated from the monthly financial statement reconciliation template on line 203 on Schedule A on the Statement of Financial Position as a Payable to ADHS/DBHS. Enter the amount of an excess loss calculated from the monthly financial statement reconciliation template on line 103 on Schedule A of the Statement of Financial Position as a Receivable from ADHS/DBHS.

It is the RBHAs responsibility to identify to ADHS/DBHS any encounter data issues or necessary adjustments via the initial reconciliation by the due date specified with the initial reconciliation. It is also the RBHA's responsibility to have any identified encounter data issues corrected and adjudicated no later than twelve (12) months from the end of the contract year being reconciled. Any encounter issues not identified during these time periods will result in the exclusion of the encounters from the reconciliation.

The RBHA shall report all sub-capitated expenses and block payment arrangement expenses to ADHS/DBHS on a monthly basis as part of the financial statement package. Any other data necessary for reconciliation purposes shall be reported in a format requested by ADHS/DBHS. Prior to the completion of the initial and final reconciliation, sub-capitated and block payment arrangement financial information shall be provided by the RBHA by program/population (Non CMDP Child, CMDP Child, DD Child, DD Adult, GMH/SA, SMI Integrated and SMI Non Integrated) and category of service. If this information is unaudited, it shall be accompanied by an attestation of its accuracy. The RBHA shall submit all sub-capitated and block payment arrangement encounters with a sub-cap code and a CN1 code of 05 with a paid amount of \$0. All sub-capitated encounters and block payment arrangement expenses that do not conform to this format and have a health plan paid amount greater than \$0 will be excluded from reconciliation expenditures.

For all current and past reconciliations, if the RBHA requests recoupments on the related claims, the related encounters must be adjusted (voided or void/replaced) and adjudicated no later than one hundred twenty (120) days from the date of the recoupment. ADHS/DBHS reserves the right to adjust any previously issued reconciliation results for the impact of the revised encounters and any recoupment of block payment arrangement expenses made after the previously issued reconciliation and recoup any amounts due ADHS/DBHS. If the RBHA does not submit the revised encounters within the required timeframe, ADHS/DBHS may recoup the estimated impact on the reconciliation and reserves the right to sanction the RBHA.

K. PROFIT LIMIT FOR NON-TITLE XIX/XXI FUNDS

Refer to Section IV. C. 7 for information regarding the Profit Limit for Non-Title XIX/XXI and Appendix B-14 of this guide for an example of the Profit Limit Analysis for Non-Title XIX/XXI.

Instructions for the Profit Limit

The RBHA shall not earn a profit in Non-Title XIX/XXI SMI, Supported Housing for TXIX SMI, SB1616 Housing, Bridge Subsidy and Non-Title XIX/XXI Crisis. These programs are treated separately for profit purposes. The provision for income tax will not be added to service expense. Unexpended funds in these programs must be returned to ADHS/DBHS upon request. Losses in these programs will not be reimbursed.

No more than 4% profit should be earned in the SABG (SAPT) and MHBG (CMHS) and Non-Title XIX/XXI (Other and County). Losses in these programs are not reimbursed. A separate analysis should be prepared for the Non-Title XIX/XXI programs. The details of the profit limit payable must be disclosed. Income taxes are not included in the Non-Title XIX/XXI Profit Limit calculation.

The required steps are as follows:

- 1) Calculate the Profit Limits for Non-Title XIX/XXI, SABG (SAPT), MHBG (CMHS), County and Other. Revenue and Expenses as reported in the Profit Limit Analysis must match the Revenue and Expenses as reported on the Statement of Activities.
- 2) Enter the amount of an excess profit as a negative number on line 401b on the Statement of Activities under the applicable program.
- 3) Enter the amount of an excess profit on line 203 on Schedule A on the Statement of Financial Position as a Payable to ADHS/DBHS. This is the amount that must be returned to ADHS/DBHS.

L. BH AND PH LAG REPORTS

AICPA Statement of Position (SOP) 89-5 defines IBNR as costs associated with health care services incurred during a financial reporting period but not reported to the prepaid health care provider until after the reporting date. GAAP requires costs to be accrued as services are rendered. This requirement is met through accrual of a liability, i.e., IBNR. In conjunction with the IBNR process, SOP 89-5 further states that premiums (equivalent to capitation) are reported as revenue in the month members are entitled to service; premiums collected in advance are deferred revenue. SOP 89-5 concludes: "Health care costs should be accrued as the services are rendered, including estimates of the costs of services rendered but not yet reported. Furthermore, if a provider of prepaid health care services is obligated to render services to specific members beyond the premium period due to provisions in the contract or regulatory requirements, the costs to be incurred for such services should also be accrued currently." (AICPA SOP 89-9, paragraph 30)

There are three primary components of claims expense:

- Paid Claims
- Received but unpaid claims (RBUCs). A claim should be classified as an RBUC immediately upon its receipt and is to be tracked as such. The processing status of a RBUC is either pending, in process, or payable.
- Incurred But Not Reported claims (IBNRs)

Paid claims and RBUC expenses are identifiable as part of the basic accounting systems of the RBHA. Since these components, along with a well-established prior authorization and referral system, form the basis for IBNR estimation, it is imperative that the RBHA has an adequate claims accrual and payment system. The system must be capable of reporting claims on a date-of-service basis, have the capacity to highlight large outlier cases, possess sufficient internal controls to prevent and detect payment errors, and conform to regular payment patterns. Once IBNR estimates have been established, continuous monitoring of reported and paid claims is essential.

Claim expense evaluation requires consideration of current trends and conditions. The following claims environment factors should be considered:

- Changes in various policies, practices, or coverage;
- Trends in inflation, claims lag time and length of hospital inpatient stay; and
- Changes in contractual agreements.

IBNRs are difficult to estimate because the total units of service and the exact service costs are not always known prior to claims receipt. Since inpatient and residential treatment center claims are major expenses incurred by the RBHA, it is important to accurately identify costs of outstanding unbilled services. Selection of an appropriate system for estimating IBNR claims expense is based on RBHA circumstances, characteristics, and the availability of reliable information.

Elements of an IBNR System:

1. The IBNR system must function as an integral part of the overall financial management and claims system. These systems join to collect, analyze, and share claims data. They require effective referral, prior authorization, utilization review and discharge planning functions. The RBHA must, in addition, have a full accrual accounting system to properly identify and record the expense, together with the related liabilities for all unpaid and unbilled services provided to clients.
2. An effective IBNR system requires the development of reliable lag reports that identify the length of time between the dates of service, receipt of claims, and processing/payment of claims by major provider type (hospital, outpatient, etc.). Reliable claims/cash disbursement systems generally produce much of the necessary data. Lag Reports and projections are most useful when there is a sufficient, accurate claims history, with stable lag patterns. If this is not the case, the reports will require modification, on a pro-forma basis, to reflect corrections for known errors or skewed payment patterns. The data included in the Lag Reports should include all information received to date.
3. Whenever practical, claims data collection and analysis should begin before the service is provided (i.e., prior authorization records). This prospective claims data, together with claims data collected as the services are provided (i.e., prior authorization records), should be used to identify claims liabilities.
4. Claims data may be segregated to permit analysis by: county, major provider, or category of service.
5. Subcontract agreements should clearly state each party's responsibility for claims/encounter submission, prior notification, authorization, and reimbursement rates. These agreements should be in writing, clearly understood, and followed consistently by each party.
6. Individual IBNR amounts, once established, should be monitored for adequacy and adjusted, as needed. If IBNR estimates are subsequently found to be significantly high or inaccurate, analysis should be performed to determine the reasons therefore. This analysis should be incorporated into a RBHA's IBNR methodology, if applicable.

Several different methods can be used to determine the total IBNR amount. The RBHA should employ a method that best meets their needs and accurately estimates their IBNRs. If a RBHA is considering a method different from that previously described, a written description of the process must be submitted to ADHS/DBHS for approval prior to its use. The IBNR methodology used by the RBHA must also be evaluated by the RBHAs Independent Certified Public Accountant for reasonableness. If the RBHA employs an alternate method to estimate its IBNR, the RBHA must submit documentation to back-up the amount of IBNR reported. Documentation is required only on the quarterly, draft and final audited reports. Documentation may be sent electronically and is due on the same day the financial reports are due. The quarterly, draft and final audited reports will be considered incomplete if the documentation for the IBNR estimate is not submitted by the report's due date.

Lag Reports are used to track historical payment patterns. When a sufficient history exists and a regular claims submission pattern has been established, this methodology can be employed. If the Lag Report is not the primary methodology, the RBHA should use lag information as a validation test for accruals calculated using other methods. Typically, the information on the schedules is organized according to the month services are rendered on the horizontal axis and the month claims for those services are paid on the vertical axis. Population and category of service should track specifically, as each population may have different characteristics. A separate Lag Report should be prepared for BH and PH. Refer to Appendix B-15 and B-16 of this guide for an example of the BH Lag Report and the PH Lag Report.

Instructions for the Lag Report

The Lag Report is arranged with dates of service horizontally and quarter of payment vertically. Therefore, payments made during the current quarter for services rendered during the current quarter are reported on row 1, column 2, while payments made during the current quarter for services rendered in prior quarters are reported on row 1, columns 3 through 8. Do not include sub-capitated and block payments in the Lag Report.

Expense reported in the current period on the Lag Report should equal the expenses reported in the Statement of Activities less the expenses reported in the sub-capitated expense report by hospital, medical compensation and other in total.

Adjustments, such as provider refunds, should be reported in the Lag Report. A general explanation of any adjustments should be included in the footnotes as well as additional detail if any adjustment is greater than 5% of total IBNR Claims Payable.

M. FQHC/RHC MEMBER MONTHS

Quarterly, -RBHAs may be required to list member month information by category for each FQHC/RHC where a SMI PCP assignment has been made for physical health. Any member assigned to the FQHC/RHC on the first day of the month should be counted as one member month. Partial months will not be counted. Exclude State Only transplant member months. The SMI Integrated should be prepared on a separate report if the RBHA has other AHCCCS lines of business, such as Acute or ALTCS. Refer to Appendix B-17 of this guide for an example of the FQHC/RHC Member Months Report.

The RBHA is responsible for maintaining a detailed listing, by month, of members submitted. Listing should include member name, AHCCCS ID number, primary care physician, FQHC/RHC assignment, rate code and amounts paid. This list is a part of the financial reporting package and is due to ADHS/DBHS thirty (30) days after the quarter or forty (40) days after the fourth quarter.

The rate code on the 834 AHCCCS eligibility loop should be used to identify the categories for reporting. Refer to Rate Codes To Be Included in Main Risk Groups Report using the following link:
<http://www.azahcccs.gov/commercial/Downloads/CapitationRates/RiskPooltoEligibilityCategorytoRateCode.pdf>

N. MEDICARE REPORT

The RBHA is required to submit its quarterly reports to ADHS/DBHS for informational purposes sixty (60) days after the quarter end. If the RBHA is a Medicare Advantage Plan licensed through the Arizona DOI, quarterly reporting to ADHS/DBHS is required for informational purposes only. ADHS/DBHS will accept a copy of the NAIC filing submitted to the Arizona DOI. If the RBHA is a Medicare Advantage Plan certified by AHCCCS, then the RBHA shall use the AHCCCS Financial Reporting Guide for Acute Care Contractors and the report template (Appendices A-G) for quarterly reporting to ADHS/DBHS.

O. SUPPLEMENTAL ANNUAL REPORTS

Refer to Appendix C of this guide for examples of the required annual supplemental reports.